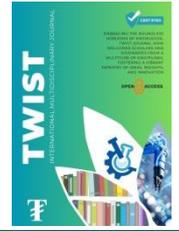




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Authorisation Cycle as a Composite of Control Measures for the Effectiveness of an Internal Control System of a Primary Education Programme in Uganda

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Abstract

Authorisation cycle is a composite of control measures which interplay to boost the effectiveness of the internal control system, to mitigate risks associated with implementing programme activities. The authorization cycle should be preceded by clear segregation of duties to avoid conflict of interest. Although segregation of duties has been lauded for supporting the effectiveness of the authorization cycle, it has some challenges embedded in its implementation. The study explored the authorization cycle to determine the effectiveness of the internal control system in the Universal Primary Education capitation grant in Uganda. Focus was on the practice of segregation of duties, documentation, verification, authorization, supervision and approval of transactions related to the utilization of the UPE capitation grant. Findings show that there is failure to provide oversight over the personnel responsible for the authorization process. The verification process is compromised when the head teachers take over the responsibility of formulating the budget from the School Finance Committee. The verification process has been abused through the signing of cheques by officials without supporting documents. There are gaps in the documentation and verification of purchases which provide room for “supplying air” thus resulting into losses of the grant. The inadequate supervision over the activities of the head teacher has created impunity among them to blatantly violate the guidelines. It is recommended that oversight should be strengthened and effectively done throughout the process of authorisation to plug the loopholes identified in the system.

Keywords

Authorisation Cycle, Internal Control System, Primary Education, Uganda

INTRODUCTION

Authorisation cycle is a composite of control measures which interplay to boost the effectiveness of the internal control system, to mitigate risks that are associated with implementing various program activities. Under this study, the authorisation cycle is conceptualised to include segregation of duties, authorisation, verification and supervision. Although many authors like Sambo and Imiete (2018:88), Kumuthinidevi (2016:604) and Bukenya and Kinatta (2012:7450) present these controls as standalone elements of the control activities, it is argued that they are actually interdependent in supporting the functionality of the internal control system (The New York State Government Comptroller 2005:16; Ndamenu 2011:22, Ballesteros et al 2015:367; Boakye 2016:8; Turedi and Celayir 2018:6; Odek and Okoth 2019:15).

The authorization cycle should be preceded by a clear segregation of duties to avoid conflict of interest. This is to ensure that personnel are not given opportunity to authorize transactions where they are beneficiaries (Turedi and Celayir 2018:10). Segregation of duties is the distribution of key duties and responsibilities of a transaction among different personnel to reduce the chances for any individual to be in a position to commit and conceal errors, intentional or unintentional, or perpetrate fraud as they perform their duties (Waweru et al 2017:464; Young, 2017: 8). The New York State Government comptroller (2005:18) and Kim et al (2020:166) emphasise that the central purpose of segregating duties is to ensure that different personnel perform the duties related to a transaction, such as initiation of a requisition for

payment of cash, authorization, record of the transaction, and custody of cash. This is because if all those transactions pertaining to the authorisation cycle of the expenditure were to be executed by one officer, that individual could be tempted to commit, conceal and perpetrate acts of fraud (Kumuthinidevi 2016:604; Odek and Okoth 2019:15).

Mwakimasinde et al (2014:66) and Waweru et al (2017:470) argue that distributing responsibilities of authorization and other aspects of a transaction to different individuals introduces checks and balances in the authorization cycle, which help to deter manipulation of documents and to detect errors and conspiracy among staff to defraud the grant of its resources. Loan (2015:82) illustrates how the businesses in Vietnam adopted segregation of duties which enabled them to successfully reduce the level of fraud in the purchases function. One of the approaches they adopted was to segregate the responsibilities of personnel in the purchasing from those in the stores department to avoid the overlapping of fraud prone activities. Carnes (2019:26) also reported that the practicing of segregation of duties among staff of the book keeping section of Kentucky schools (USA), greatly boosted the functionality of the internal control systems of the schools, thereby reducing risks like fraud in the management of the school activity funds. Furthermore, it was noted that failure by the Free Primary Education Program in Kenya to segregate authorisation responsibilities over the procurement process for instruction materials, resulted into a breakdown of the internal control system of the program which led heavy losses of money due to fraud in the procurement process (Otieno and Nyangechi 2013:15).

However, much as segregation of duties has been lauded for supporting the authorization cycle and boosting the efficacy of the internal control systems, it has some challenges embedded in its implementation. It has been observed that segregation of duties poses challenges to small organisations with few staff to share responsibilities, implying that for some small entities, it may be inevitable to assign all the authorisation responsibilities to an individual (Dzomira 2014:119; Mwakimasinde et al 2014:67). This may result from the fact that personnel of those small entities may have to perform many different functions which may lead to some of their duties overlapping. This may create opportunities for such employees to commit fraud. Dzomira (2014:119), also points out that segregation of duties may be incapacitated due to collusion among employees, to deliberately commit fraud. Some authors therefore recommend that a program should apply segregation of duties only to the most vulnerable and critical areas that considerably affect the effectiveness of the internal control system. To alleviate these short comings, it is proposed that management should closely supervise staff to detect any incompatible behaviour and the relationships among staff and they should be closely monitored to avert any possible collusion.

After the proper segregation of conflicting duties, the management of an entity can then assign authorisation responsibilities over aspects of a transaction to various staff, in order to enhance the effectiveness of the internal control system. Authorisation refers to the power granted or delegated to an officer of the program to perform certain duties of a transaction, based on approval by a supervisor (Turedi and Celayir 2018:10). Authorization is a control measure that requires transactions to be sanctioned by a designated or responsible officer, before they are initiated (Monisola et al 2016:92; Waweru et al 2017:464). Authorisation of transactions involves the officer vested with authority, reviewing the supporting documents, to verify that the transaction is genuine, accurate and is in line with the policies, and procedures of the program, before the transaction is approved (Waweru et al 2017:465). While authorisation entails verification of the authenticity of the transaction, approval has to do with the expression of satisfaction by the approver that the transaction is legitimate and is part of the eligible program costs of the program and it should be executed (The New York State Government comptroller 2005:18). It is argued that authorisation helps to identify and correct any errors intentional or deliberate and to halt any forgeries before the transaction is approved and executed (Bukenya and Kinatta 2011:7450; Widyaningsih 2015:92).

It is proposed that an effective authorisation mechanism requires the limit of authority given to the delegated officer to be specified and communicated to them in writing (Bukenya and Kinatta 2012:7449). This ensures that the delegated officers are held accountable for what they sign and it binds them to take responsibility for their actions, which improves the efficacy of the internal control system (Sambo Imiete 2015:84; Al-Hawatmeh and Al-Hawatmeh 2016:237; Ayamga and Bagina 2019:6). The New York State Government comptroller (2005:16) avers that management of a program should ensure that the conditions and terms of authorizations given to an officer are clearly documented and communicated to them and that officers should only approve transactions in with the scope of their authority to avoid abuse of authority. Additionally, it is asserted that the authorising officer should be equipped with prior knowledge of all the eligible program costs that are relevant to the furtherance of program objectives (Waweru et al 2017:465). This enables the officer to approve only eligible expenditure which contributes to the achievement of program objectives and to eliminate improper and dubious payments (Muhunyo and Jagongo 2018:275).

Authorization and approval mechanism are considered a crucial tool for supporting the effectiveness of internal controls to mitigate risks such as diversion and leakage of resources, thereby ensuring that program resources are utilized efficiently and effectively. Waweru et al (2017:471) reported that the adequate practicing of authorisation control activity by management of the Constituency Development Fund program in Kenya enhanced the efficacy of the internal control system which minimised the risk of diversion of funds and improved the performance of the Fund (Waweru et al 2017:471). On the other hand, Çika (2018:62) found that a poor authorisation mechanism compromised the functionality of the internal control systems in many SMEs in Albania, which resulted in exposing the companies to risks of fraud. Furthermore, it was reported that failure to give staff clear authorisation limits and the absence of checks and balances in

the authorisation cycle, undermined the effectiveness of the internal control system in the Gas and oil companies in Malaysia and this resulted in misappropriation of company resources (Zakaria et al 2016:1164).

An important aspect of the authorisation cycle which is critical to the effectiveness of internal control system is verification. Verification is a tool which ensures that transactions which are authorised are based on valid documents or information (Bukenya and Kinatta 2012:7450; Etengu and Amony 2016:335). Verification is the process of ascertaining the completeness, accuracy, authenticity and validity of transactions, events, data or information (New York State Government 2005:16). Examples of verification include reviewing supplier invoices for accuracy by comparing them to local purchase orders (LPOs) and validation of delivery notes to ensure goods are actually received in stores before they are approved for payment (Kaplan 2012:8; Sambo and Imiete 2018:85; Turedi and Celayir 2018:10). It is proposed that verification enables the authorising officer to detect any forged documents which could be used to commit fraud and connivance among staff or between staff and suppliers, thereby strengthening the effectiveness of the internal control system (Abubakar et al 2017:59). Another example of verification is the bank reconciliation which involves reconciling the program cash book with bank statements, to guard against conspiracy between program and bank personnel to forge entries on bank statements to swindle program funds (New York State Comptroller 2010:13; Widyaningsih 2015:92).

For verification to add value to the authorisation process and the effectiveness of the internal control system, management should clearly define and document what needs to be verified and this should be communicated to personnel who are responsible for conducting verifications (Dzomira 2014:121; Widyaningsih 2015:92). Waweru et al (2017:465) emphasise that the personnel verifying should know what they are looking for, otherwise they will just authorise the transaction without adding any value thereby exposing the program to risks such as losses.

It is generally accepted that verification is an indispensable accounting control activity for the functionality of the internal control system. Authors opine that adequate verification of data and records can diminish the opportunity for fraudulent personnel to swindle program funds through falsification of records thereby endangering the effectiveness of the internal control system (COSO 2013:5; Widyaningsih 2015:92). Nigerian Universities are reported to have suffered from inflated students and staff due to negligence in conducting verifications. This led to embezzlement of funds from government (Sambo and Imiete 2018:85).

Supervisory control supports the authorization cycle by ensuring that the authorizing personnel is keenly overseen and guided by a superior program official to see to it that they approve activities in strict observance to the established procedure and guidelines, so as to safe guard the resources of the program from leakage (Kaplan 2012:9). Supervisory control can be understood as the ongoing oversight and guidance of a program activity by designated senior staff to ensure that personnel under them do not flout the laid down procedure or abuse the authority assigned to them (Comptroller New York State government 2005:18; Monday et al 2014:243). The essence of supervisory controls is to strengthen the internal control system by ensuring that personnel who are assigned authority to approve transactions are closely monitored so that they do not approve dubious transactions that are likely to expose the program to risks like fraud (Adagye 2015: 3904; Kewo 2017:294). According to Omisore (2014:104) a supervisor in a program implemented in a decentralised setting acts as a link between the central government who is the principal and the decentralised agent who is the supervisee to ensure that the agent does not flout the internal controls as they perform their authorisation responsibilities.

It is asserted that the effectiveness of supervisory controls in the authorisation cycle in a government program depends on a number of factors. Government should establish clear reporting lines and assign detailed responsibilities to the supervisor to ensure compliance of the supervisee. This will eliminate any ambiguity in reporting and each supervisor will know their responsibilities (Capital Markets Authority 2012:12). The Comptroller New York State Government (2005:18) also noted that there should be written procedures guiding the supervisees as they perform their authorisation tasks to enable them to align their performance to the stipulated procedure. Furthermore, Kaplan (2012:8) proposes that supervisors should be technically sound to provide guidance and training where necessary to the supervisee to support the supervisee to perform the assigned activities and should routinely and systematically review the work of the supervisee. This ensures that the continuous watchful eye of the supervisor will discourage the supervisee from abusing their authority to sanction fraudulent transactions.

Many studies now concur that supervisory controls engender the effectiveness of the internal control systems of government agencies by ensuring that staff who are assigned authority are not given latitude to misuse their approval power to sanction illegitimate transactions which are likely to cause fraud. It was for instance found out by Muraleetharan (2013:15) that there was improved financial reporting in the Local governments in Sri Lanka due to enhanced supervision and guidance of staff by their superiors. Ejoh and Ejom (2014:134) reported that regular supervision of staff minimised the misappropriation of resources by staff and engendered efficient utilisation of resources by the tertiary institutions in Nigeria. It was also discovered that effective supervision of staff in the accounting department resulted into good quality financial reports by public institutions of higher learning in Nairobi County, Kenya. On the other hand, Zakaria et al (2016:1165) discovered that poor supervision of operations in the oil and gas company of Malaysia compromised the internal control effectiveness which resulted in heavy fraud in wages and abuse vehicles.

However, supervisory control is sometimes limited by the supervisors on a program who may have less skills or knowledge than the staff assigned the activity, thereby adding little value. In addition, the personality or moral values of the supervisor may prove a disservice to the control process as they may compromise or be compromised by those they supervise resulting in compromising the effectiveness of the internal control system (Dzomira 2014:125; Omisore and

Ashimi, 2014:104; Lera 2020:50). Moreover, despite the important role played by authorisation control in supporting the effectiveness of internal control, the control activity is vulnerable to connivance among different personnel in the authorisation cycle to beat the internal control system to commit fraud to swindle program resources (Habas 2019:1). Zakaria et al (2016:1164) reported that supervisors connived with junior staff to authorise fictitious overtime in order to share overtime payments, which resulted in losses of money by the Gas and Oil companies in Malaysia. Therefore, this study sought to explore the authorization cycle to determine the effectiveness of the internal control system in the Universal Primary Education capitation grant in the context of a developing economy where financial resources are limited.

METHOD

The research adopted a qualitative approach targeting key actors on the capitation grant under the UPE program. The study conducted an exploratory review of literature and used semi-structured interviews to collect data. The study reviewed scholarly articles and practitioner reports to assess different debates on how the authorization cycle determines the effectiveness of the internal control system. Semi-structured interviews were also carried out with officials from the Ministry of Education and Sports, Ministry of Finance, Planning and Economic Development, District Education officers, District Inspector of Schools, District Internal Auditors, Head Teachers and School Management Committee Members (SMCs) from Bugiri District, in Eastern Uganda. Moreover, focus groups discussions were held with SMCs. The interviews were conducted to supplement the existing literature. Data was analysed to identify emerging themes. Conventional and summative content analyses were used to generate meaning from the data collected.

DISCUSSION OF FINDINGS

The study explored the authorization cycle to determine the effectiveness of the internal control system in the UPE capitation grant. Emphasis was placed on the practice of *segregation of duties, documentation, verification, authorization, supervision and approval of transactions* related to the utilization of the UPE capitation grant. Findings focused on the transactions of withdrawal of cash from the bank and its utilization. Head teachers were asked what triggers the withdrawal of funds from the bank. Majority of the head teachers reported that they follow the UPE guidelines by involving the SFC in developing a budget based on the priority needs and the votes. It was noted that the involvement of the SFC is a control measure to ensure that the grant is spent according to the priorities of the users who form the committee. The head teachers further reported that the budgets are submitted to the SMCs for approval. Furthermore, the head teachers narrated that after the budget has been approved, the head teacher writes a cheque which is signed by three SMC representatives, that is, the head teacher, Treasurer, and Chairperson. The signing of cheques is the last step before the cash is withdrawn from the bank. A critical analysis of the responses revealed that head teachers presented the ideal process provided for in the standing orders. This was confirmed by a review of the UPE guidelines which clearly highlighted the steps narrated by the head teachers.

An engagement with the SMCs presented heated deliberations of different scenarios that trigger withdrawal of funds from the bank. During the FGDs, some SMCs reported that the head teachers in their schools prepare the budget and present it to the SFCs for endorsement, contrary to the UPE guidelines (MoES 2008:3) which stipulate that the SFCs together with the head teachers should formulate the budget. Others expressed dissatisfaction that a small group of acquaintances within the SMC approve the budget contrary to section 8.3.9 of the UPE guidelines (MoES 2008:15), which require the full SMC to approve the budget. Some SMC treasurers and chairpersons reported that they are called by the head teachers to sign a cheque without any supporting documents. While others testified that sometimes they are requested to sign blank cheques on the pretext of saving time. It was also revealed that some head teachers stage-manage the process by presenting a signed cheque to the SMC together with a budget for endorsement. Some SMC members blamed the SMC treasurers and chairpersons of foul play to the extent that they accompany the head teacher to the bank to withdraw cash.

The discussions above reflect discrepancies in the responses between the SMCs and the head teachers. While the head teachers reported the ideal situation, the SMCs presented what in reality takes place. The verification process is compromised when the head teacher takes over the responsibility of formulating the budget from the SFC. Under the circumstances, it is difficult to verify whether or not those budgets reflect the priorities of the user departments. The fact that only a small clique of SMCs 'approve' the budget signifies a sinister motive with intention to circumvent the verification process. This is also contrary to section 2.5.6 of the UPE guidelines which requires the full SMC to verify the budget before approving it.

In addition, the verification process has been abused through the signing of cheques by the SMCs without supporting documents. This even creates suspicion that the head teachers are taking advantage of the SMC's ignorance to manipulate the verification process. In addition, making SMCs sign blank cheques reflects a deliberate attempt by the head teachers to avoid justification that may be required by the SMCs in the verification process. This also violates section 10.9 of the Treasury Instructions 2017 which require all cheque payments be supported by payment vouchers (MoFPED 2017:181). In addition, signing cheques without verification contravenes the section 7.7.2 of Accounting Instructions (MoFPED 2017:95) which enjoins officers to verify transactions before authorization. This reveals that there is a blatant abuse of both signing and withdrawal instructions for cash from the bank in the UPE capitation grant program. This threatens the effectiveness of the internal control system the grant.

The responses suggest that the authorization process of the withdrawal of cash is revolving around one individual – the head teachers. This has caused them to wield a lot of control and they have used that influence to virtually hijack the entire authorization process of the withdrawal of cash from the bank. The amputated verification process of the withdrawal mechanism of cash implies that the transaction which is approved may not be authentic. This agrees with Waweru et al (2017:465) who point out that inadequate verification leads to authorisation of transactions which are not valid.

The study then sought to establish the expenditure of the cash withdrawn from the bank. The head teachers were asked how the cash from the bank is disbursed. Most head teachers responded that they receive requisitions from the user departments for carrying out different activities as per the approved votes. The head teachers further reported that they prepare and authorize payment vouchers before paying out the cash. This reveals that the head teacher prepares the voucher and at the same time authorizes it. This further confirms that there is hardly any segregation of duties in the process of expenditure of cash.

Focus was then placed on understanding how purchases of items such as stationaries and scholastic materials is handled, with regard to segregation of duties, verification and documentation. This is because most of the cash is reported to be spent on purchases. The head teachers were asked how they purchase items such as scholastic materials and stationaries. Most head teachers narrated that they buy items on cash basis from the shops. They reported further that the procured items are delivered together with the receipts to the head teachers 'offices for storage. They added that the purchased items and their receipts are presented to the SMCs for verification.

However, interactions with SMCs revealed a different picture of how the cash is utilized. There was a general consensus that the head teachers in most schools have taken over all responsibilities that have to do with cash. One SMC member remarked that “where there is cash involved, only the head teacher will handle that transaction”. Another complained that “we have a challenge verifying the items purchased by our teacher; because they often do not match with the receipts”. Others revealed that they are only shown the receipts but not the items purchased and yet there are no records for the items in the store. Other SMCs stated that when they demand to see the items that have been bought, they are informed that the all the items have been utilized.

The interactions with the SMCs reflect gaps for the process of utilizing of the cash withdrawn from the bank. The fact that the head teacher is in charge of the custody, processing, authorizing, approval and expenditure of cash, reflects a deficiency in the segregation of duties, which undermines the checks and balances in the transaction. In addition, the practice of the head teachers authorizing payments where they are the recipients breeds conflict of interest. Personnel should not be given opportunity to authorize transactions where they are beneficiaries (Turedi and Celayir 2018:10). These lapses are rendering the internal control system feeble and exposing the grant to risks like errors and manipulation, resulting into leakages of the UPE capitation grant. Literature confirms that if transactions pertaining to the authorisation cycle of the expenditure were to be executed by one officer, that individual could be tempted to commit, conceal and perpetrate acts of fraud (Kumuthinidevi 2016:604; Odek and Okoth 2019:15).

Furthermore, the failure by the head teachers to match the items purchased with the receipts and to show the items purchased points to flaws in documentation of the purchases. The inadequate documentation frustrates the efforts of the SMCs to verify the purchases. Failure to verify the purchases makes it difficult to ascertain the validity of the purchases. The inability to verify the purchases undermines the effectiveness of the internal control system and creates doubt about the delivery of the purchases. The gaps in the documentation and verification of purchases provides room for “supplying air” thus resulting into losses of the grant. The focus group discussions reveal several lapses in the entire authorization cycle which have weakened the internal control system. This has resulted into exposing the grant to risks such as air supply and fraud. This resonates well with the findings by Waweru et al (2017:470) and Çika (2018:62) which show that lapses in the authorization cycle cripples the internal control system and exposes the a government program to risks such as misappropriation of funds,

The several gaps in the authorisation cycle prompted an interview with DEOs to find out if there are any interventions at supervisory level to block the challenges in withdrawal and utilisation of the grant. The DEO was asked how they ensure the adherence of the authorization processes to the UPE guidelines and other government policies. The DEO responded that this function has been delegated to the SMCs. They explained further that the UPE guidelines mandate the SMCs to ensure that the head teachers conform to the authorization processes stipulated in the guidelines in the utilization of the grant. They were further probed on whether their attention has been drawn to the lapses in the authorization process. The DEO recounted that they have heard of some noncompliance with the procedures but the majority are allegations which are not documented. The DEO was tasked as a supervisor to explain what measures they take to investigate such allegations in order to deter such abuses of the system. The DEO responded that “given the big number of schools in the district, we are constrained by resources to investigate every hearsay”. This shows that the DEOs ignore some of their oversight and guidance roles to the head teachers to ensure compliance to the UPE guidelines. The inadequate supervision over the activities of the head teacher has created impunity among them to blatantly violate the guidelines. Moreover, the fact that the DEOs are not keen at investigating allegations of abuse of the authorization processes creates suspicion that they condone the practice. No wonder the SMCs are frustrated that they report the inconsistencies in the authorization cycle but nothing is done about it. The several loophole compounded by the lethargy among the district leadership has weaken the internal system.

The officials of the MoFPED were also asked how they ensure that compliance with the authorization process for the utilization of the UPE capitation grant is enforced. They reported that this is the responsibility of the district authorities. They were also probed if they were aware of any non-conformity by head teachers to the authorization process. They responded that this has not been brought formerly to their attention, although they hear of some head teachers who do not comply with the authorization process. The officials were further asked if such information on noncompliance has triggered any intervention from the MoFPED. The officials explained that they believe that the relevant agencies like the districts are best placed to handle these issues. The responses by the DEO and officials of the MoFPED portray gaps in the follow up mechanism by the government of the adherence of the authorization processes to the guidelines. The gaps undermine the effectiveness of the internal control system which is exposing the grant to abuses like misappropriation. This concurs with the findings by Zakaria et al (2016:1164) and Kewo (2017:240) that failure to provide oversight over the personnel responsible for the authorization process, gives them latitude to manipulate the laid down systems, in order to swindle resources of an entity.

CONCLUSION

This article explored the authorization cycle to determine the effectiveness of the internal control system in the Universal Primary Education capitation grant in Uganda. Findings show that there is failure to provide oversight over the personnel responsible for the authorization process. The verification process is compromised when the head teacher takes over the responsibility of formulating the budget from the SFC. Under the circumstances, it is difficult to verify whether those budgets reflect the priorities of the user departments. The verification process has been abused through the signing of cheques by the SMCs without supporting documents. This even creates suspicion that the head teachers are taking advantage of the SMC's ignorance to manipulate the verification process.

The interactions with the SMCs reflect gaps in the process of utilizing cash withdrawn from the bank. Since the head teacher is in charge of the custody, processing, authorizing, approval and expenditure of cash, there is a deficiency in the segregation of duties, which undermines the checks and balances in the transaction. These lapses render the internal control system vulnerable and expose the grant to risks like errors and manipulation, resulting into leakages of the UPE capitation grant. The failure by the head teachers to match the items purchased with the receipts and to show the items purchased points to flaws in documentation of the purchases. The gaps in the documentation and verification of purchases provides room for "supplying air" thus resulting into losses of the grant.

The inadequate supervision over the activities of the head teacher has created impunity among them to blatantly violate the guidelines. Moreover, the fact that the DEOs are not keen on investigating allegations of abuse of the authorization processes creates suspicion that they do not only condone the practice but could be culprits as well. No wonder the SMCs are frustrated that they report the inconsistencies in the authorization cycle but nothing is done about it. Therefore, it is recommended that oversight should be strengthened and effectively done throughout the whole process of authorisation to plug the loopholes identified that have been identifies in the system.

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