EFFECTIVENESS OF INTERNAL FINANCIAL CONTROL POLICIES IN PUBLIC SECTOR INSTITUTIONS: THE CASE OF THE MINISTRY OF DEFENCE ZIMBABWE

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE

UNIVERSITY OF ZIMBABWE
FACULTY OF COMMERCE
GRADUATE SCHOOL OF MANAGEMENT

AUGUST 2014
SUPERVISED BY: DR N KASEKE
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SUPERVISOR DR N KASEKE ................................... DATE...............

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DEDICATION

I would like to dedicate this dissertation to my wife Chipo for her unwavering support and love. I will always appreciate and cherish your patience and words of encouragement.
ACKNOWLEDGEMENTS

Firstly, my sincere gratitude goes to the almighty, who provided me with all I needed to make this project a success. In the same vein, I also extend my earnest appreciation to my supervisor Dr Nyasha Kaseke for patiently providing guidance throughout this ordeal. My utmost gratitude is further accorded to Mr Gondo who tirelessly helped me through from the initial to completion.

Last but not least, I wish to thank my employer, fellow employees of the Ministry of Defence and friends from all walks of life for providing the necessary sponsorship and encouragement.

Lastly, my genuine gratitude also goes to my family, particularly my wife Chipo, daughter Grace and son Tadiwanashe whose support can never be quantified. I will forever remain sincerely indebted to all the above people.
The research assessed the effectiveness of internal financial control policies in Public sector Institutions, focusing on the Ministry of Defence (MOD) for the period 2010 to 2013. The study was necessitated by the need to improve effectiveness of internal controls in the Zimbabwean Public Sector. This was in light of the severe budget over-runs, misappropriation of funds and negative audit reports.

The main objective of the study was to assess the effectiveness of internal financial controls in place within the public sector. This was done through an assessment of the usage of and adherence to internal controls, coupled with uncovering the challenges and potential strategies associated with implementing and using effective internal controls.

Relevant literature was reviewed in line with the mentioned objectives. This led to the methodology section. A survey with 92% response rate was used for the research and questionnaires were used to gather data from the respondents. The respondents were all employees at the MOD. Interviews were conducted with the Chief Internal Auditor and one Director to obtain in depth answers and also to clarify unclear responses thus improving validity and reliability of results.

Major findings were that despite general adherence to internal controls, the internal controls in place are not effective. The findings also included challenges faced in using internal controls and identified potential strategies to enhance effectiveness of internal controls. The study also revealed the importance of creating a conducive environment for effective implementation of internal controls. There is no obvious flouting of control procedures put in place.

The conclusion reached was that the internal controls at the MOD are ineffective. It was also concluded that there is reasonable adherence to the usage of internal controls in place despite the existence of several challenges such as outdated manuals, lack of inadequate funding and lack of appropriate training.

The study recommended that management must continuously update policy and procedure manuals used and at the same time institute the necessary training to bring about effectiveness of internal controls. It was also recommended that management should professionalise the MOD through recruiting, training and development of qualified personnel. Furthermore, continuous dialogue with Ministry of Finance was suggested to reduce excessive budget overrun.
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<th>Description</th>
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<tr>
<td>MOD</td>
<td>Ministry of Defence</td>
</tr>
<tr>
<td>USGAO</td>
<td>United States Government Accountability Office</td>
</tr>
<tr>
<td>ZDF HQ</td>
<td>Zimbabwe Defence Forces Headquarters</td>
</tr>
<tr>
<td>PFMA</td>
<td>Public Finance Management Act</td>
</tr>
<tr>
<td>PFMS</td>
<td>Public Finance Management System</td>
</tr>
<tr>
<td>MOFA</td>
<td>Ministry of Finance and Economic Development</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>MBA</td>
<td>Master of Business Administration Degree</td>
</tr>
<tr>
<td>GSM</td>
<td>Graduate School of Management</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
</tr>
<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organisation for Standardisation</td>
</tr>
<tr>
<td>SoD</td>
<td>Segregation of duties</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>BCS</td>
<td>Budgetary Control System</td>
</tr>
<tr>
<td>ITC</td>
<td>Information Technology Controls</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
</tr>
<tr>
<td>SAP</td>
<td>System Application Product</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
<tr>
<td>COBIT</td>
<td>Control Objectives for Information and Related Technology</td>
</tr>
<tr>
<td>MANCOSA</td>
<td>Management College of Southern Africa</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Scientists</td>
</tr>
<tr>
<td>IC</td>
<td>Internal Control</td>
</tr>
<tr>
<td>IA</td>
<td>Internal Audit</td>
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CHAPTER 1 - INTRODUCTION AND BACKGROUND

1.0 Introduction to the study

This study assesses the effectiveness of internal financial control policies in public organizations focusing on the Ministry of Defence (MOD), a government ministry in Zimbabwe. Effectiveness is about accomplishing intended results. Effective internal control can help companies achieve established financial goals, prevent loss of resources, keep accurate recording of transactions, and prepare reliable financial statements (Ernst & Young 2002). There is currently considerable interest in the topic of internal controls and its contribution to the achievement of organisational objectives to reduce misappropriation of funds. Internal financial controls are systems within an organisation or institution that design methods and procedures to produce effective operations, establish reliable financial reporting, avoid fraud and maintain compliance with regulations and laws (Effah, 2011).

The evaluation of these internal controls is meant to help the Ministry of Defence to review and assess the structure of accountability within the Ministry. An effective system of internal controls provides assurance concerning the integrity of financial reporting and safeguarding of assets (Effah, 2011). Such controls also help accuracy in financial reporting (Asare, 2006). Simultaneously, there is growing management appreciation of the importance of having a good internal control system as some of the recent reports on bank failures have indicated fraud and negligence as key contributory factors (Chan, 1995). To this end, the activities of internal controls such as internal audits and others are now seen as critical elements in the assurance process.

Organisations use internal controls to make sure financial information is accurate and valid (Effah, 2011). The presence of internal financial controls in an organization is therefore crucial since they protect the integrity of an organisation’s financial information and allow stakeholders a measure of financial health and also get value for money. Public organizations have shareholders demanding accountability. In the case of the Ministry of Defence, the major stake
holders lag behind in taking action, but because of the funding questions, the incentives for and number of effective internal financial controls in the public sector continues to increase (Hardman, 2006). U.S Government Accountability Office (GAO) alluded to the application of internal controls to improve financial reporting in public sector (George, 2005).

This chapter provides the introduction and background of the study, the MOD structure, Budgetary support for the Ministry, Internal financial controls in the Ministry, Cases of misappropriations of funds, statement of the problem, purpose of the study, objectives of the study, Research questions, Proposition, Rationale of the study, Scope and the chapter summary.

1.1 The Ministry of Defence

The Ministry of Defence (MOD) is a government ministry located at number 96 Kwame Nkruma Avenue Harare in the central business district and was established in terms of the constitution of Zimbabwe. The Ministry is an integrated organisation. It is a merger between the Defence Forces Headquarters (ZDF HQ) and a complement of Civil Service personnel. The ZDF HQ element is a combination of Senior Army and Air Force Officers and supporting staff. Prior to the integration in 1994, the MOD was wholly manned by public service commission civilian staff complemented by a small number of military liaison personnel.

The Constitution of Zimbabwe Amendment (No. 20) Act, 2013 states “The function of the Defence Forces is to protect Zimbabwe, its people, its national security, interests and its territorial integrity”. The MOD is tasked with the mandate of providing the political leadership, Legislative authority and financial resources to the ZDF. It is the command and control centre that provide guidance and a conducive environment that enables the Zimbabwe Defence Forces to attend to and fulfill their mandate as the guarantors of the country’s peace, tranquility and stability. The organisation’s mission is to defend the sovereignty, territorial integrity and national interests of the Republic of Zimbabwe and to contribute to international peace.

The MOD oversees and ensures that the ultimate implementation of issues relating to the establishment, command, administration, organization, duties, and conditions of service, training
and co-operation with other military forces are considered. The strategic plan of the MOD outlines the vision, mission, objectives, strategies, assumptions, risks and critical internal controls that the ministry operates under to ensure its mandate is achieved.

The ministry administration is composed of the following departments;

A) Finance and Human Resources,  
B) Procurement Research and Administration  
C) Policy, Public Relations and International Affairs,  
D) Internal Audit

The department of Finance and Human Resources is responsible in terms of the Public Finance Management Act (Chap 22:19 Sect 13(1) and Accounting Officer’s Instructions for “the management and disbursement of public resources allocated to the ministry by the Appropriation Act or other enactment”. Sect 44(1) (a) also says that “An accounting authority for a public entity shall ensure that public entities establish and maintain;

(i) Effective, efficient and transparent systems of financial and risk management and internal controls,

(ii) A system of internal audit under the control and direction of an audit committee operating in accordance with section 80 (which shall apply to public entities subject to such changes as may be necessary, including the substitution of the “Public Service Commission” by the accounting authority in question),

(iii) An appropriate procurement and provision system which is fair, equitable, transparent, competitive and cost effective,

(iv) A system that properly evaluates all major projects prior to a final decision being made on the project….”

For the period 2010 to 2013, the ministry encountered various challenges such as budgetary constraints, misappropriations, debt crises and unnecessary expenditures yet the organisation has in place internal control systems to mitigate these challenges. It is against this background that this study seeks to evaluate the effectiveness of internal control policies in the MOD in managing public funds to achieve set objectives.
1.1.1 Budgetary support for the Ministry

The Ministry of Defence obtains its funding from the fiscal authority through a budgetary allocation in the national budget by the Ministry of Finance and Economic Development. Table 1.1 and 1.2 below show the budgetary allocations for the MOD for the period 2010 to 2013 and the actual expenditure for the years.

Table 1.1: Budgetary allocations and the actual expenditure for the years 2010-2013 compared to the national budget.

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved Total Budget beginning of the year (US$ 000)</th>
<th>Approved Operational Budget Beginning of the year (US$ 000)</th>
<th>Total National Budget Beginning of the year (US$)</th>
<th>Total Actual Expenditure</th>
<th>Operational Actual Expenditure Excluding Employment Costs (USD)</th>
<th>Total National Expenditure (USD)</th>
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<tbody>
<tr>
<td>2010</td>
<td>99 444</td>
<td>33 407</td>
<td>2 078 681</td>
<td>154 803</td>
<td>59 807</td>
<td>2 029 985</td>
</tr>
<tr>
<td>2011</td>
<td>70 669</td>
<td>19 438</td>
<td>2 467 600</td>
<td>241 473</td>
<td>70 669</td>
<td>2 495 046</td>
</tr>
<tr>
<td>2012</td>
<td>318 272</td>
<td>101 482</td>
<td>3 647 855</td>
<td>314 470</td>
<td>73 682</td>
<td>3 214 759</td>
</tr>
<tr>
<td>2013</td>
<td>356 699</td>
<td>85 985</td>
<td>3 419 729</td>
<td>382 869</td>
<td>85 985</td>
<td>2 658 949</td>
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Table 1.2: Allocated Revenue compared to Actual Expenditure.

<table>
<thead>
<tr>
<th>Years</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>Allocated revenue/Budget</td>
<td>(USD 000)</td>
<td>(USD 000)</td>
<td>(USD 000)</td>
<td>(USD 000)</td>
</tr>
<tr>
<td>Grant Totals</td>
<td>99,444</td>
<td>70,669</td>
<td>318,272</td>
<td>356,699</td>
</tr>
<tr>
<td>Operational Budget only</td>
<td>33,407</td>
<td>198,437</td>
<td>101,482</td>
<td>85,985</td>
</tr>
<tr>
<td>Actual Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant Totals</td>
<td>154,803</td>
<td>241,473</td>
<td>314,470</td>
<td>382,869</td>
</tr>
<tr>
<td>Operational Budget only</td>
<td>59,807</td>
<td>70,669</td>
<td>73,682</td>
<td>85,985</td>
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<tr>
<td>Variation</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Grant Totals</td>
<td>(55,359)</td>
<td>(170,804)</td>
<td>3,802</td>
<td>(26,170)</td>
</tr>
<tr>
<td>Operational Totals</td>
<td>(26,400)</td>
<td>127,769</td>
<td>27,800</td>
<td>-</td>
</tr>
</tbody>
</table>
1.1.2 Internal Financial controls and regulations in the MOD

The following forms of financial controls are present in the MOD to provide guidance on how employees should execute their day to day duties.

1.1.2.1 Estimates of expenditure (Budgets)

A budget is the master plan of any institution. Burkhead and Miner (2009) explained that a government budget is a plan of revenue and expenditure for the forthcoming fiscal year. Pau, Woods, Fourie and Visser (2009) alluded that where resources are scarce, it is not enough to work economically, efficiently and effectively with public funds, but it is critical that the budgetary allocations be done in very rational ways to yield maximum economic and social benefits. The MOD follows a systematic way in the budgetary process starting form a call circular from Ministry of Finance (MOFA) inviting the MOD to prepare and submit estimates of expenditure for the forthcoming year. Submissions are made followed by discussions with MOFA justifying the expected estimates of expenditure against strategic plans. The MOFA then prepares a consolidated national budget which it then presents to parliament for approval and then presidential ascent. The parliament then passes the Finance and Appropriation Acts which allow the budget to be operational. The MOD then is able to utilise the voted funds.

1.1.2.2 Internal audit

The MOD has a system of Internal Audit in place in terms of Section 44(1)(ii) of the PFMA (Chapter 22:19) that an accounting authority for a public entity shall ensure that public entities establishes and maintains a system of internal audit under the control and direction of an audit committee operating in accordance with section 80 and 84 of the PFMA Act. The MOD uses the internal audit as a tool of management that reports any weaknesses which may exist with the internal check and control systems and reports direct to the accounting officer. However, there is no audit committee as prescribed by the PFMA Act. Once enacted, the budget can be uploaded on the system.
1.1.2.3 Control of Expenditure (Authorisation and approval of expenditure procedures)
Before payment is made the officer must verify that there is proper authority for services or supply, the services or supply has been performed or delivered, the charge is in accordance with the terms of the contractor, order and is arithmetically correct. The officer must also ensure that payment has not already been made. Officers must ensure that all expenditures that has matured for payment is charged to the vote in that year. There must be no postponement of payment whether for purposes of avoiding excess expenditure on vote or for other reason (Ministry of Defence Accounting Instruction and Procedure Manual of 2009).

1.1.2.4 Internal Check and Control (Segregation of duties including verifications)
Ministry of Defence Accounting Instruction and Procedure Manual of 2009 say that there shall be well defined division of responsibilities between departments, sections and individuals, so that no one person handles a transaction from beginning to end. There is clear division in respect of each transaction and of responsibilities for (a) compiling, certifying, correcting and passing for payment, (b) the physical custody and control of public assets and (c) control of records.

1.1.2.5 Bank reconciliations
In pursuit of the objective of strengthening governance and consistent with good corporate governance practice in this respect, government in 2009 come up with the various measures through the PFMA to govern public resources management. The MOFA then issued on 3 March 2011 an instruction (Ref:B/1/88) on regular reconciliation of bank account transactions on PFMS. In terms of this guide, ministries like MOD are required to process all transactions through the PFMS. Such transactions should thereafter be validated by, on a regular basis, reconciling both the Exchequer and Paymaster General’s sub-accounts for each ministry on the system in accordance with the procedure outlined in the guidelines available. Directors of Finance are required to put in place adequate measures to comply with the above (Treasury Instruction, Ref: B/1/88, 2011).
1.1.2.6 Management Reports
The MOD produces monthly, quarterly, bi-annually and annual statutory and management reports showing how funds have been utilized during any given period as well as comparatives with budgeted funds (PFMA, 2011).

1.1.2.7 Public Finance Management system
In 2000, the Government of Zimbabwe embarked on the automation of government processes and the exercise was later affected by the hyperinflation between 2007 to 2008 period. The exercise was then revitalised again in 2009. This is a financial management system used by the government of Zimbabwe and MOD in particular which uses Information Communication Technology (ICT) in an innovative way to manage public funds. The objective is to implement an integrated computerized accounting system for government, increase the ability to centrally control and monitor expenditure and receipts, improve access to information and internal control and allow multi-user and site access throughout the country.

1.1.2.8 Treasury instructions
According to the Public Finance Management Act (Chapter 22:19), it is the ultimate responsibility of The Treasury to manage and control public resources for the whole government. Pursuit to this, The Treasury produces instructions to government departments and agencies how to manage public resources (PFMA, 2011).

1.1.2.9 Ministry of Defence Accounting Instructions and Manual.
In terms of the first and second schedule of the Audit and Exchequer Act of 1996, as amended and later revised by the Audit Office Act, the Secretary for Defence is prescribed to be the receiver of revenue and accounting officer for the Ministry of Defence. In this capacity, the officer is responsible for accounting for revenue generated and all services rendered in respect of which monies are appropriated by legislature from time to time. The accounting officer is therefore required to issue detailed written instructions governing the conduct of financial business and control of all public monies and property for which he is responsible. Such
instructions are available to implementers of Ministry programs (Audit and Exchequer Act, 1996).

### 1.1.3 Cases of Misappropriation of Funds

An audit by the Office of the Comptroller and Auditor General of the financial year 2011 revealed as a result of the malfunctioning of the PFMS, the posting of suspense general ledger to various ledger accounts was not complete and as a result assets worth USD1 247 011 had not been classified and recorded in their respective asset registers. The implication to this is that assets may be misappropriated without trace if records are incomplete.

The same audit report also noted that, compared to previous years, there was an increase in the number of officers who had multiple travelling and subsistence advances at year end which is in contrast with the treasury instruction 1505, which forbids the issuing of additional advances before advances made in previous periods are cleared.

An audit conducted for the 2012 financial year revealed that the ministry did not maintain a register for donations. Despite the presents of the guide lines and procurement procedures, the organization bought gifts without sourcing three quotations as per the internal control in place.

From a sample of personal files extracted, Officers undertaking various staff development programmes did not completed bonding agreement forms in violation of Public service regulations. An audit conducted for the 2012 financial year also revealed that quotations and invoices where being attached instead of receipts as supporting vouchers on travel and subsistence claim forms as per the treasury and accounting officer’s instructions.

### 1.2 Statement of the Problem

The Ministry of Defence faces numerous challenges in designing and managing their internal controls yet effective internal controls over systems, procedures and financial reporting have become crucial for all business stake holders. It has been noted that in some of the years under study the ministry has been spending beyond the initially allocated budgets. Also, at different
intervals, the Ministry suffered financial losses due to misappropriation and poor monitoring mechanisms of public funds among other causes. In spite of this, responsible authorities did not investigate if there are problems with the internal controls to curb such behaviours in the Ministry. To this end, unless we unravel the proper procedures for monitoring adherence to internal controls, unpack the threats to effective internal controls in public sector financial management and identify strategies to adopt to improve the effectiveness of internal controls, the Ministry will continue to spend beyond targets, be defrauded and suffer huge losses in the future and thereby affecting performance. It is therefore imperative to evaluate the effectiveness of the internal financial controls in the MOD and adherence thereof.

1.3 Purpose of the study

The purpose of this study was to assess the effectiveness of the internal control policies in public sector financial management focusing on the Ministry of Defence.

1.4 Objectives of the Study

The study was guided by the following objectives:

1. To establish whether internal controls in place are being adhered to by the Ministry of Defence.
2. To evaluate the effectiveness of the internal financial control policies in the management of public funds in the Ministry of Defence.
3. To identify challenges to effective use of internal controls in managing Ministry of Defence funds.
4. To suggest possible strategies that could be adopted by the Ministry of Defence to improve the effectiveness of the internal controls in public financial management.

1.5 Research Questions

The underlying research questions guiding the study include the following:

1. Does the MOD always adhere to internal financial controls in place?
2. How effective are the Ministry of Defence internal control systems for managing public funds?
3. What are the challenges to effective internal controls in the MOD.
4. What possible strategies could be adopted by the Ministry of Defence to improve the effectiveness of the internal controls in public financial management?

1.6 Research Proposition

This study’s proposition was that the internal control systems in the Ministry of Defence are strong and effective.

1.7 Rationale of the Study

1.7.1 No such a study has been carried out for the Ministry of Defence in Zimbabwe.
The idea of conducting an investigation into the effectiveness of the internal control policies in public sector financial management in Zimbabwe and focusing on the Ministry of Defence has not been done anywhere to the knowledge of the researcher. Studies in Zimbabwe on internal control management such as those noted in earlier have focused primarily on the private sector, especially the financial service sector. In Zimbabwe the focus has been on the notion of public sector reform in which internal controls would be mentioned in passing. The study has been aggravated by the by the need to overcome the problems faced by public financial managers in effecting internal controls in public organizations.

1.7.2 Creating improvement in terms of efficiency and effectiveness in government
Internal controls ought to be effective so as to create improvement in the public sector. Positive improvement in government will obviously be a well come development to the citizenry of Zimbabwe. The study also attempts to create awareness of the importance of effective internal controls in making critical decisions based on the financial results of the organization and given that the MOD is a very big and vital arm of the government consuming a relatively bigger chunk of the national budget.
1.7.3 Implication on Governance
The area of investigation in this study is located in the discourse of corporate governance, specifically the field of public finance management. As an integral part of the entity’s governance system, the ability to manage risk, effected and monitored by the governing body and management in order to counter threats and benefit from opportunities to achieve the organizational objectives (International Federation of Accountants, 2012). This research therefore will help the academia, government policy makers and the Ministry of Defence personnel in developing and providing a number of guidelines and best practices in implementing and monitoring internal control procedures thereby pursuing good corporate governance practices. Below is the link that exists among governance, risk management and internal control.

![Diagram](image)

Figure 1
Source: International Federation of Accountants (2012)

1.7.4 Requirement of the Master of Business Administration Degree.
The research is also justified as it is undertaken in partial fulfillment of the requirements for the award of the Master of Business Administration Degree (MBA) awarded by the University of Zimbabwe, Graduate School of Management (GSM).

1.8 Scope of the study
The study seeks to assess the effectiveness of internal control policies in public sector financial management focusing on the Ministry of Defence in Zimbabwe. The study shall be carried out in Harare at the Ministry’s head office at number 96 Kwame Nkruma Avenue covering the period 2010 to 2013. The decision has taken into consideration the cost, time and logistical implications
underpinning the contact of the study. The Ministry of Defence management and staff shall be the key respondents of the study.

1.9 Organisation of the Dissertation

Chapter 1 provides the introduction, background of the study, statement of the problem, purpose of the study, Research objectives, Research questions, Research proposition, Rational of the study, Scope of the study, Dissertation structure and concludes with the chapter summary.

Chapter 2 contains a review of the related literature within the context of the study being undertaken.

Chapter 3 deals with research methodology and focuses on the research design, philosophy, approaches, data collection and research ethics.

Chapter 4 encompasses the research results, analysis of data, and use of graphs where necessary. It also provides a discussion of each finding in relation to the research objectives.

Chapter 5 summarises the research findings through conclusions and recommendations.

1.10 Chapter Summary

This chapter gives the introduction of the study; it highlighted the need to have effective internal financial controls in public sector financial management chief among them being its importance in protecting the integrity of the organisation and its contribution to the achievement of the organizational objectives. The chapter went on to capture the historical formation of the MOD, its constitutional mandate of protecting the Republic of Zimbabwe, its people, national security, interest, and its territorial integrity. Of particular concern in this study were the Finance and Human Resources, Procurement, Policy and Internal Audit departments whose primary responsibilities were the subject of this study. The chapter also gives an insight on how the MOD is financed and its budgetary allocations for the past four years, its available internal controls and cases of misappropriation of funds. In addition, the chapter indicated the purpose of the study as
to assess the effectiveness of the internal financial control policies in public financial management focusing on the MOD. The major objectives of the study are to establish adherence and compliance to internal controls, evaluate effectiveness, establish challenges in adhering to the internal controls and provide possible measures to address the challenges. To this end, the study sought to answer certain questions as framed in the chapter in order to meet the research objectives.

The chapter explained the importance of this study with reference to its location in the discourse of corporate governance, specifically the field of public finance management and its potential to improving efficiency and effectiveness in the public sector. This research will therefore assist the academia, government policy makers, MOD management and staff in developing and providing a number of guide lines and best practices in implementing, monitoring and evaluating internal financial control procedures in public financial management.
CHAPTER 2 - LITERATURE REVIEW

2.0 Introduction

This chapter focuses on a critical review of related literature which has been customized according to the objectives of the study for ease of use in discussing findings of this study in chapter four. The chapter commences definitions of internal controls, and proceeds to give a general overview of critical theories emerging from the topic and proceeds to review the key concepts such as major highlights or key measures of effective internal controls for public financial management, measuring adherence to internal policies, internal controls, threats to internal controls and effective strategies to implement, monitor and strengthening compliance. The chapter concludes by providing a conceptual framework of how the methodology will be carried out.

2.1 Definitions

2.1.1 Internal controls

Carhill (2006) defined Internal controls as a system of internal administrative and financial checks and balances designed by management and supported by corrective actions, to ensure that the goals and responsibilities of the organisation are achieved. Internal control, is defined by COSO in its Internal Control- Integrated Framework (2013), as a process, effected by an entity’s board of directors, management, and other personnel, designed to provide assurance regarding the achievement of objectives relating to the operations, reporting, and compliance.” Internal control is a process of integrated sets of activities originated by top personnel of an organization and embedded within all the organisation’s activities to achieve goals (Amudo and Inanga, 2009). This comprises two sets of variables: dependent and independent variables. At the forefront of the independent variables is the influence of authority that ensures the independent variables function to generate the outcome of dependent variable.
Internal controls consists of “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives”, according to the COSO framework, (Zhang, Zhou and Zhou, 2007).

Internal Control an integral component of an organisation’s management that provides reasonable assurance that the following objectives are being achieved:

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

COSO stands for the Committee of Sponsoring Organisations of the Treadway Commission, who undertook an extensive study of internal control to establish a common definition that would serve the needs of companies, independent public accountants, legislators, and regulatory agencies and to provide a broad framework of criteria, against which companies could evaluate the effectiveness of their internal control systems. COSO published its Internal Control – Integrated Framework in 1992. According to the National Association of College and University Business Officers and PWC (2001), the COSO framework was designed with the aim of developing a framework which is ready for use by managements of organisations to evaluate and improve their organisation’s Enterprise Risk Management

Internal controls is defined as the process designed, put in place and maintained to provide assurance of a reasonable level regarding the achievement of the objectives of an entity, (Woolf, 2013). These objectives relate to the reliability of the financial reports, the effectiveness of operations and adherence to relevant and applicable laws and regulations.

2.1.2 Budget Definition

According to Kaplan (2012:341) a budget is a quantitative expression of a plan of action prepared in advance of the period to which it relates. Budgets set out the costs and revenues that are expected to be incurred or earned in future periods.
A budget is the master financial plan of any institution (both profit making and non-profit making organisations). According to Burkhead and Miner (2009), government budgets consist of the Government’s financial plan of revenue and expenditure for the forthcoming fiscal year. Khadka and Bhattarai (2012) further explained that a budget is an estimation of income and expenditure for specified period of time. Hay and Wilson (1992:30) cited by Ali (2013) concurred with these definitions and further point out that budgets are financial tools designed to assist management to operate governments more effectively.

This definition is at the core of the budgetary control mechanism used by the Ministry of Defence. The Zimbabwean Public Finance Management System Act 2009, Section 4 (a) recommends risk management in ministries is the responsibility of the Ministry of Finance through the Accountant General. In pursuance to this objective the Accountant General monitors the use of allocated funds using the Enterprise Resource Planning system SAP (System Application Products). This is in agreement with the assertion by Allen and Tommasi (2001), that it is the responsibility of the Ministry of Finance to monitor the spending patterns of the line Ministry. This includes checking whether line ministries are spending within budgeted limits as stipulated by Parliament.

2.1.3 Internal Audit Definition
The Institute of Internal Auditors (IIA) standards report (2013), defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2.1.4 Risk and Risk Management

Nexis (2013: 34) describes risk as the potential to have a possible deviation from a planned outcome. The greater the magnitude of the possible deviation, the higher the risk. Risk may be incurred in order to gain a competitive advantage and to increase profits of the entity.

According to Redja (2008), there is no single definition of risk. Risk has traditionally been viewed as a condition or uncertainty leading to loss, misfortune or an adverse deviation from a desired outcome that is expected or hoped for (Redja, 2008). Another definition of risk by the International Organisation for Standardisation (ISO) (2009), define it as the combination of the probability of an event and its consequences.

According to Nexis (2012: 34) risk is inherent in the operating environment within any entity functions, since the outcome of events cannot always be predicted with accuracy, and a certain degree of uncertainty in the environment with regards to the future in respect of economy, markets, products and consumer trends is inevitable. Furthermore, entities are exposed to risks arising from unexpected events such as fraud, errors, natural disasters and accidents. Risk management essentially entails minimising the possibility that adverse or loss producing events will occur, as well as minimising the adverse effects should these events occur. Thus for the Ministry of Defence risk management should involve measuring the impact that these events could have on the ministry. This is done by a systematic approach that aligns strategy, processes, people, technology and knowledge with the purpose of assessing, evaluating and managing the risks in order to create value for stakeholders.

Kotreshwar (2008) define risk management as a systematic process aimed at minimizing the adverse effects of potential losses at the least possible cost through planning, organizing, directing and controlling the resources and activities of an organisation. The institute of internal Auditors concurs with this definition and goes further to suggest that risk management increases the probability of success and reduces the probability of failure and the uncertainty of achieving organizational objectives.
2.1.5 Segregation of Duties

A fundamental element of internal control is the maintenance of adequate segregation of duties (SoD), the allocation of work so that an individual cannot both perpetrate and conceal errors or fraud in the normal course of their duties. Notwithstanding its importance, there has been limited research describing the conceptual basis for determining how duties should be segregated (Dearborn, 2013).

Segregation of duties means dividing the work to be done between two or more individuals, so that the work done by one individual acts as a check on the work of the others. This reduces the risk of the error or fraud (Woolf, 2013).

2.3 Forms of Internal Control

2.3.1 COSO Model

According to COSO Framework (2013), the internal control system has three primary objectives: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

COSO (2013) identifies essential components of an effective internal control system as: control environment, risk assessment, control activities, procedures and practices that ensure that management objectives are achieved and risk mitigation strategies implemented, information and communication, and monitoring. These elements must be present and functioning effectively for any internal control to achieve organisation’s objectives.

2.3.2 Weaknesses of the COSO Model

The framework may be relevant to larger organisations, but inappropriate to small entities due to costs and operational complexities (Institute of Internal Auditors, 2003). Management of small organisations may not need formal internal controls for the reliability of the records and other information, because of their personal involvement in the operations of the entity. The COSO framework did not capture and recognize the delicate balance between formal and informal controls in smaller organisations. Also, how can a small entity’s internal controls be effective
when only few of the components recommended by COSO are present and yet the controls could still be effective? COSO did not address this question. The other major weakness of COSO framework is its failure to recognize information technology (IT) as one of the major control components (Institute of Internal Auditors, 2003). IT is critical to internal control framework. Today, organisations use IT for initiation, authorization, recording and processing transactions.

2.3.3 Budgetary Control
According to Kaplan (2013:371) control is the process whereby management takes decisions in order to attempt to ensure that an organisation achieves its objectives. An organisation should establish a mission and set objectives for the business. A budget is then prepared, expressing the plan in money terms. This budget can then be used to establish whether the organisation is on target to achieve its objectives. If it not the budget may also be able to show us where things have gone wrong as a basis for taking control action to set the organisation back on track.

Hope and Fraser (2003:5) concurred with the above when they concluded that traditionally, the budgeting process started with the mission of the organisation being taken into cognisance; then from the mission the organisation’s strategies are developed; then finally the budgeting process in light of these strategies.
2.3.4 The Budgetary Control Cycle. Source: Kaplan (2013)

Figure 2.1

2.3.5 Feedback Controls

Feedback is the comparison of budget and actual performance with a view of revising plans, budgets or operations. The control action takes place after the event (Kaplan, 2013:372).

Budgetary control systems are typically feedback systems – an expenditure budget is set, a comparison is made with actual expenditure at the end of the budget period. If this shows that actual expenditure exceeds budget then it is not possible to take control action to prevent this overspending as it has already been incurred (Kaplan, 2013). The information can be used to avoid the situation happening again in future. Feedback control systems are of limited use because they operate too late in the control system. The essential feature of any budgetary control system is the process of comparing budgeted (expected results) with actual results. The
difference between these figures is usually referred to as a variance. Variances may be either adverse or favourable.

Section 28 (1) of the Zimbabwean Public Finance Management Act of 2009 (Cap 22:19) requires that the Minister shall present before the House of Assembly the annual budget for approval. The Act specifies that citizenry input is a pre-requisite for budget approval by Parliament. According to Ratchford (1959) cited in Ali (2013), the Government budgetary process begins with the responsible line ministry generating a draft budget. The treasury (usually the Ministry of Finance) compiles all budgets from the line ministries and submits the combined budget to Cabinet for approval. Treasury then submits the budget to parliament for approval after taking into account Cabinet input.

The Zimbabwean law requires Parliament to endorse the budgets for the line ministries through the Appropriations Bill (Section 28:3). Such a requirement is in line with Hay and Wilson’s (1992) assertion that Appropriation when enacted into law becomes an authorisation to incur liabilities on behalf of the government by line ministries in amounts not in excess of those specified for each purpose.

2.4 Internal Auditing and Risk Management

2.4.1 International Standards for Professional Practice of Internal Auditing (Standards)

The Institute of Internal Audit (IIA) (2013) sets out internal auditing standards which provide guidelines into the conduct and necessary requirements internal auditors should meet in delivering their service. IIA Standards (2013) elaborates that the standards “provide a framework for performing and promoting a broad range of value-added internal auditing and establish the basis of evaluation of internal audit performance” among other purposes.

2.4.2 Purpose and role of internal Audit

According to the IIA Standards (2013) the role and purpose of Internal Auditing includes the provision of an objective assurance and consulting services. Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or
conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor.

**Consulting** services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. IIA adds value to organisations and its stakeholders when it provides objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management and control (IIA Standards, 2013).

### 2.4.3 Risk Management

Institute of Internal Audit (IIA) standards (2013) require that the IA “must evaluate the effectiveness and contribute to the improvement of the risk management”. This is interpreted as result of assessing the alignment and support of the organisation’s objectives to the mission, significant risk are identified and assessed, appropriate risk response are adopted that align to the organisation’s risk appetite and relevant information is communicated timely across the organisation enabling staff, management and the board to carry out their activities.

### 2.4.4 Internal Control

IA activity must assist the organization in maintaining effective **controls** by evaluating their effectiveness and efficiency and by promoting continuous improvement (IIA, 2013). IA must evaluate the adequacy and effectiveness of controls in responding to risks in the organisation’s governance, operations and information systems towards (IIA, 2013):

- Achievement of the organization’s strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.
It is in the context of delivering these service that are compliant with IIA standards provisions that an evaluation of the Ministry of Defence’s internal audit department will be done in order to establish its effectiveness.

2.5 Information Technology Controls


Xenomorph (2007) proffers that effective risk management is impossible without effective information technology. According to Hasali (2002), without an information technology infrastructure, it would be difficult for members in large-scale organizations to communicate and share information. Information technology can enable prompt searches, the access to and retrieval of data, and support communication in an organization.

Computerworld (2011) describes an Enterprise Resource Planning (ERP) system as software that automates finance and human resources departments and help manufactures handle jobs such as order processing and production scheduling.

The majority of medium-to-large international organisations have adopted enterprise resource planning systems (ERPs) of which System Application Product (SAP) R/3 is the current market leader. This paper proposes a framework for the separation of duties in SAP R/3. Separation of duties is viewed as a critical component of an organization’s internal control structure aimed primarily at reducing opportunities for fraudulent activities. R/3 assigns profiles consisting of authorizations to users. Accordingly, R/3 facilitates the implementation of “role-based access control”, where these profiles may be designed consistent with organizational roles and assigned to users performing these roles. (Little & Best, 2003)
According to IFAC (2012) access security control protects the systems and network from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel. Control activities take the following forms; frequent changes of dial-up numbers; use of dial-back access; restrictions on users to allow access only to system functions that they need; software and hardware “firewalls” to restrict access to assets, computers, and networks by external persons; and frequent changes of passwords and deactivation of former employees’ passwords.

2.5.1 The Control Objectives for Information and Related Technology (COBIT)
This framework identifies Information Technology resources as a source of information needed by organisation’s processes. It assembles the entity’s individual activities within an IT environment into processes and domains. The domains are; planning and organization with eleven processes; acquisition and implementation six processes; delivery and support thirteen processes, and monitoring four processes (COBIT, 2010).

2.6 Theoretical Framework
Most of literature on internal control frameworks includes information and communication as one of the internal control components. Smooth flow of information and communication across and within the organisation is influenced by the nature of working relationship within the organization at all levels (Amudo and Inanga, 2009). The working relationship coordinates organisation’s activities to achieve goal congruence. When effective working relationship exists in an organization, delegation of responsibilities is achieved and internal control functions as intended. However, when a communication gap exists for any reason, sub-optimisation results with adverse consequences.

Amudo and Inanga (2009) further highlighted that some internal control frameworks place unnecessary emphasis on detailed explanation of the different components of the system and methods for their design as indicated by the control mechanisms. They ignore details on how each of the different components can be measured to assess their effectiveness. When a common benchmark for evaluation of results is missing, how then can one measure the results? Also knowing the right approach becomes difficult. Other internal control frameworks ignore where
one or more components are missing within a given structure, but a compensated for with other controls in other components. For example, in small companies’ segregation of duties is not possible, but is compensated by management’s involvement in day to day supervision, verification and review of records and processes, to ensure controls function effectively (Amudo and Inanga, 2009). Under such circumstances, all components of an effective internal control system may not exist but the system can still be effective. The challenge may be to measure the effectiveness of such a system. When such management practices extent to large organizations, unscrupulous managers may end up manipulating the organisation to meet their personal goals.

2.7 Segregation of Duties and Authorisation Controls

Pomerantz and Rao (2009) identify separation of duties as one of the key concepts of internal controls. It is also one of the most effective internal controls in combating fraud in an organization. It contributes to an organization’s system of checks and balances. The objective is to separate closely related business processes. This has to do with enhanced clarity of duties in an organization. The Ministry of Defence’s standard operating procedures require that certain tasks need to be performed by two different individuals in line with the principle of Separation of duties for example the authorisation of purchase orders and receiving of purchased goods. Such a practice is in line with examples cited by Pomerantz and Rao (2009).

Pomerantz and Rao (2009) suggest that Separation of Duties (SoD) SoD is a traditional security control tool pre-dating information systems and is particularly well-known in financial accounting. Some of its more common forms are known by popular monikers such as “four-eye-principle” or “two-man rule”. The essential aim of SoD is to recognize potential conflicts of interest in activities which could result in errors or fraud. Where potential conflicts of interest arise, activities are structured such that different individuals perform specific steps of the overall activity. For instance, in a purchasing process, the person who requests a purchase usually is not the same person who approves purchases. Distributing responsibilities reduces the impact that a single individual can have, requiring collusion to perpetuate a fraud (Giblin and Hada, 2008; Wyatt, 2004; Pomerantz and Rao, 2009).
According to IFAC (2012) key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. Thus, if the Ministry of Defence were to have several individuals being involved in the completion of an overall task, this increases the likelihood that errors will be detected when they are made. Wolf (2013: 168) agrees by stating that individuals can more easily identify mistakes of other people more easily than they can identify their own. They conclude that it is more difficult for a person to commit fraud, because a colleague may identify suspicious transactions by a colleague who is trying to commit a fraud.

2.8 Procurement Legal Framework.

The Procurement Act (Chapter: 22:14)’s objective are:

- To establish a State Procurement Board and to provide for its functions;
- To make provision for the procurement of goods, construction work and services by the state, statutory bodies and other persons;
- To provide for matters connected with or incidental to the forgoing.

Thus all procurement in the public sector in Zimbabwe is governed by this Act. Consequently procurement controls in the Ministry of Defence must be evaluated in light of provisions of the Procurement Act.

2.9 Importance of internal Controls

According to Effah (2011), business corporations consider all types of control including those of operational or compliance nature as well as internal controls. The system of internal controls is premised on ensuring that a business is well run and its strategic objectives are achieved. Through increasing the quality of internal controls, corporations obtain a significantly lower cost of debt financing (Anderson, 2004). Agrawal and Chadha, (2005) further suggest that other studies in public corporations find that improved internal financial controls related to improved
quality financial reporting outcomes. Consequently effective of internal controls can be linked to the extent to which the Ministry of Defence is achieving its objectives.

IFAC (2012) mention internal control as a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, support performance-based management. Internal controls are shown as providing the first line of defence in safeguarding assets, preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories (United States General Accounting Office, 2010) (USGAO):

- Effectiveness and efficiency of operations including the use of the entity’s resources.
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
- Compliance with applicable laws and regulations.

2.10 Effectiveness of Internal Controls

USGAO (2010) proffers that people are what make internal controls work. The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. There is a risk that people with assigned internal control responsibilities might not have sufficient knowledge, experience, skills, or time to adequately fulfill those responsibilities. This can seriously weaken and even jeopardise the effectiveness of the internal control system, which can in turn damage an organisation.

The governing body, management, and other participants in the organization’s governance system should be sufficiently competent to fulfill the internal control responsibilities associated with their roles (USGAO, 2010).
2.11 Challenges in implementing internal Controls

2.11.1 Management Ability
Management should design and implement internal controls based on the related cost and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all agency objectives will be met (USGAO, 2010).

Another factor is management’s commitment to competence (USGAO, 2010). All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. The Ministry of Defence needs to constantly identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as constructive counseling, and performance appraisals.

2.11.2 Control Environment
Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management (USGAO, 2010). Thus in a government department such as the Ministry of Defence, when managers wantonly flout internal controls, it sets a bad precedence for the subordinates.

According to IFAC (2012) organizations implement internal controls without adequate assessment of the external and internal environment, as well as their objectives, activities, processes, or systems that are sources of risk. Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.
2.11.3 Information Technology.

IFAC (2012) recommends that, because information technology changes rapidly, controls must evolve to remain effective. Changes in technology and its application to electronic commerce and expanding Internet applications will change the specific control activities that may be employed and how they are implemented, but the basic requirements of control will not have changed. As more powerful computers place more responsibility for data processing in the hands of the end users, the needed controls should be identified and implemented. The Ministry of Defence recently adopted an electronic payment system called Paynet (MOD Management report, 2013). Under this system the Ministry is now paying its creditors using this extranet based system.

2.12 Benefits of Internal Controls

IFAC (2012) advises that internal control is a crucial aspect of an organization’s governance system and ability to manage risk, and is fundamental to supporting the achievement of an organization’s objectives and creating, enhancing, and protecting stakeholder value. High-profile organizational failures typically lead to the imposition of additional rules and requirements, as well as to subsequent time-consuming and costly compliance efforts. However, this obscures the fact that the right kind of internal controls—enabling an organization to capitalize on opportunities while offsetting the threats—can actually save time and money, and promote the creation and preservation of value. IFAC (2012) further notes that effective internal control also creates a competitive advantage, as an organization with effective controls can take on additional risk.

Lin (2005) divides the importance of internal financial controls into the following five categories:

- Detecting errors and fraudulence. The establishment and improvement of the internal control environment diminishes the possibility of error and fraudulence.
- Decreasing illegal conduct;
• Improving the competitiveness of the business entity. This follows from the establishment good control procedures that identifies risks and deals with it effectively;

• Improving the quality of data. Strong internal control processes should lead to a more efficient operation and improve the quality of data management, directors, and shareholders can rely on to make decisions and

• Decreasing auditor’s fees. Effective internal control system allows auditors to rely on it and thus reducing the auditing time and effort, thereby presenting opportunities for fee reducing.

Thus, effectiveness of internal financial control policies can be ascertained by whether the Ministry of Defence is enjoying the above benefits or not.

2.13 Strategies to improve effectiveness of Internal Controls

2.13.1 Continuous and Integrated Process

Larry, Rittenberg, Martens and Landes (2007) propounded that maintaining effective internal control is not static. Organizations have to expect that controls will change over time as risks and processes change. The Ministry of Defence should have processes in place to update its risk identification and assessment policies and procedures as well as continuously monitoring the effectiveness of its internal control system.

2.13.2 Management assessment of internal control

The assessment of internal controls over financial reporting as a separate task from managing the day-to-day activities is now commonly accepted by many businesses. By allowing these two areas to converge, management will attain greater efficiencies (Larry et. 2007). The ministry of Defence may affect this through greater reliance on monitoring activities within a company or through the re-engineering of current processes.

2.14 Conceptual Framework

Below are the conceptual framework components of dependent and independent variables. This framework was motivated by Amudo and Inanga’s (2009) framework on internal controls. The
effectiveness of the internal control is the dependent variable. This is only achieved by the presence and correct functioning of all the predefined independent variables in relation to each category of the organisation’s objectives. Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable. Then the organization realises present objectives of efficient and effective operations, generation of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements (Amudo and Inanga; 2009). The objectives are overlapping. This means that efficient and effective operations produce accurate, reliable and informative financial reports that comply with applicable laws and regulations.
The objectives, depicting overlapping interrelationships are numbered 1, 2 and 3 Figure 2.2:

(1) include efficiency and effectiveness operations,

(2) accuracy and reliability of informative financial reporting and,
(3) compliance with applicable laws, regulations, policies and procedures.

The independent variables determine the effectiveness of internal control system. The presence and proper functioning of all the components of the independent variables ensures effectiveness of internal control system. This achieves each category of objectives 1, 2 and 3 in Figure 2.2. The independent variables comprise major and minor components. Individual minor components jointly feed into and form a specific major independent variable. The measurement of minor independent variables locates any weakness existing in the major variables.

According Amudo and Inanga, (2009), the major independent variables include are:

- control environment, risk assessment, control activities, information and communication, monitoring and information technology;

And the minor independent variables include:

- authorisation and approval procedures, human resources policies and practices, assignment of authority and responsibility, ineligible expenditure, accountability obligations, segregation of duties, control over access to resources, presence of internal auditors, verification, reconciliation, review of operating performance and supervision.

A direct relationship exists between the outcomes of the dependent and independent variables (Amudo and Inanga, 2009). Internal control processes consisting of both minor and independent variables affects the effectiveness of internal control systems. There are different approaches to the evaluation of effectiveness of internal controls. The study uses the model in Figure 2.2 above as a basis for assessment. To this end, the controls assessment is a step toward achieving the study’s objectives once the research questions have been answered. The questions were formulated to establish the effectiveness and adherence to internal controls. Additionally the question sought to identify challenges and strategies in implementing internal controls.
2.15 Conclusion

The chapter reviewed literature on the effectiveness of internal financial controls other material relevant to the subject under discussion. The various writers and their contributions to the different forms of internal controls were acknowledged with particular emphasis on the environmental requirements for effective use of internal control systems was discussed. Empirical studies were also noted and reviewed.

Having reviewed the relevant literature the researcher proceeded to the Research Methodology which is the subject of the next chapter. The chapter looks at how the actual research was conducted.
CHAPTER 3 - RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology that was used to investigate and complete the study. Fisher (2010) defines research methodology as the studying of methods which involves numerous questions, philosophical in nature, concerning possibilities to the researchers in an attempt to ascertain how valid curtailed hypothesis are in the process adding to the body of knowledge. The methodology covers the conceptual framework of the research, the research design and techniques used in the study of the Ministry of Defence to meet the research objectives. The time available for the research (6 months) and the fact that the researcher is not a full time researcher led to the choice of a case study. There are very few known studies on the effectiveness of internal financial control policies in public sector of Zimbabwe. This led the researcher to use an exploratory study. The chapter goes on to define the population and sampling method used. The research methods used to sample, collect, present and analyse data are discussed. The motivations and justifications for adopting such strategies are presented and discussed. The research limitations encountered are also explained.

3.2 The Research Design

The research design provides the glue that holds the research processes together and enables the researcher to address the research questions in ways that are appropriate, efficient and effective, (MANCOSA, 2014). Saunders, Lewis and Thornhill (2009:136) proffer that research design is the general plan of how the researcher will go about answering the research questions. The researcher used exploratory research in this study. Saunders, et al., (2009) define exploratory study as a valuable means of finding out “what is happening; to seek new insights; to ask questions and assess phenomena in a new light”. The researcher utilised the exploratory research technique as there is no documented research on effectiveness of internal financial control policies in public sector of Zimbabwe.
3.3 Research Philosophy

There are two approaches namely, positivist and phenomenological (Saunders, et al., 2009:9). These approaches are also known as quantitative and qualitative respectively.

3.4 Phenomenological Approach

The above approach is generally defined as research that utilises open-ended interviewing to explore and understand the attitudes, opinions, feelings, and behaviour of individuals or a group of individuals (Glatthorn and Joyner, 2005:10). Mathematical calculations are not many, leaving the data to be analysed qualitatively. The data used is also descriptive. Qualitative studies use inductive logic, where the researcher designs a study and then develops a theory to explain his results. Since the analysis is qualitative, it introduces an element of subjectivity. This may lead to different researchers reaching different conclusions on the same data. This type of research is expensive as it involves interviews. The interviews allow for validation of vague answers. It also increases reliability of results if they are cross checked. Interviews allow for easy access to data as well as easy to influence the response rate with minimum costs (Creswell 2003:29).

In this research the phenomenological approach was partly used since it draws a lot of qualitative data from employees at the Ministry of Defence. The measurement of the perception and expectation of employees at the Ministry of Defence on level of effectiveness of internal financial control policies drew qualitative data. Most questions actually describe personal experience.

The main advantage is that social settings are more subjective than the positivist approach, but objectivity is impossible. However, its shortcomings are that the findings are not statistically projectable to the subject under study (Saunders et al. 2009:14). Qualitative the data in the research was analysed using this method.

3.5 Positivism Philosophy

The approach is quantitative and scientific and also collects and uses numerical data. It is mainly suited for survey and experiment method of research. According to Saunders et al., (2009:113) Positivism uses deductive logic, where the researcher starts with a hypothesis and collects data to
confirm or refute the hypothesis. Saunders et al., (2009:113) conclude that Positivism is concerned with “working in the tradition of the natural scientist”. The data is analysed using mathematical or statistical models. Analysis can be done by the computer which makes it fast and inexpensive. Due to its quantitative nature results are not subjective. Some of the data in the research was analysed using this method due to its relevance, simplicity and speed of analysis.

As can be seen from the above positivism and phenomenology represent two ends of a continuum. According to Saunders et al., (2009:113) researchers may develop research designs that combine research strategies from those two paradigms in a single research design. Thus the researcher used both quantitative (survey in which a sample was studied from the employee population at the Ministry of Defence to make inferences about the population) and qualitative (using a case study to intensively investigate internal controls in the Ministry of Defence) approaches in the design for this study.

3.6 Research Strategies

Research requires a particular choice of strategy depending on circumstantial evidence Saunders et al., (2009:16); each research strategy has its own pros and cons. (Saunders et al., 2009:17), mentions up to eleven different strategies. These are: experiment, descriptive, causal comparative, survey, exploratory, explanatory, case study, grounded theory, ethnography, action research, cross sectional and longitudinal research design. In some cases researches have to be combined to bring in strengths from each side as happened in this study. This then increases validity and reliability. The research strategies used are discussed below.

3.6.1 Surveys

The survey is a positivist research design in which in which a sample is selected from a population and studied to make inferences about the population (Brown, 2006). Surveys typically use questionnaires and interviews in order to determine the opinions, attitudes, preferences and perceptions of persons of interest to the researcher.
The survey is the most common method used to collect data in social sciences (Walonick, 2006:19). The researcher used a survey to acquire data through a questionnaire from Ministry of Defence respondents. Thus survey strategy was used in obtaining primary data.

### 3.6.2 Personal Interview

Personal interviewing is one of the most effective methods of collecting primary data (Walonick, 2002:42). The method usually achieves a very high response rate. Other advantages include the immediacy of responses which allows immediate probing, greater accuracy, easy to observe non-verbal communication, responses are spontaneous and more questions can be asked (Wegner, 2002:27; Walonick, 2006:45).

The major disadvantage with this method in this research is the limited time available to interview the research participants. Interviews were not used in collecting initial data as it needs a lot of time which the researcher could not schedule. Some employees may have found it difficult to give their honest opinion as it also exposes the respondent. The method was however used when checking reliability and validity of data with one of the three Directors and the Chief Internal Auditor. The method was also used as a follow-up on unclear responses with the Chief Internal Auditor.

### 3.6.3 Case Study

Robson (2002:178) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Thus, the case study was used in this research in order to gain a rich understanding of the effectiveness of internal financial control policies in public sector in Zimbabwe using the Ministry of Defence as a case study.

Holetzky, (2009:21) proffers that the study of a person, a small group, a single situation, or a specific "case," is called a case study. It involves extensive research, including documented evidence of a particular issue or situation - symptoms, reactions, effects of certain stimuli, and the conclusion reached following the study. A case study focuses on a particular group of people having something in common. In this study Ministry of Defence employees have something in common in that they all work for the same employer. A case study may show the existence of a
relationship between two factors, whether or not a causal relationship can be proven (Holetzky, 2009:21). The research focused on employee participation and how it impacts on performance at Ministry of Defence. In this research a case study was used.

Yin, (2003:23) distinguishes between four different case study strategies based upon two discrete dimensions:

- Single versus Multiple case; and
- Holistic case versus embedded case.

The study used a single case where the MOD represented an opportunity to observe and analyse the concept of worker participation in decision making.

**Strengths**

- Case study is detailed and richer in bringing out information; and
- Involvement of the researcher is intensive.

**Limitations**

- Generalisation is limited because samples are not representative of the population;
- Case studies are time consuming on the part of the researcher.

**3.7 Study Population**

According to Saunders et al. (2009:212) a research population is generally a large collection of individuals or objects that is the main focus of a scientific query. It is also known as a well defined collection of individuals or objects known to have similar characteristics. It is for the benefit of the population that the researches are done. The population is divided into categories namely the target population and the accessible population. The target population is that from which the research finding were to be generalised. This research’s population was all employees of the Ministry of Defence and the target population were all ministry employees from finance, procurement, internal audit and policy departments.
3.7.1 Sampling Strategy
Anderson and Poole (2001:58) state that sampling is closely linked to external validity or generalization of the findings in a study, the extent to which what has been found in a particular situation at a particular time applies more generally. McPhail (2001:27) defines sampling as a process of selecting a portion of the population known as a sample to become the basis of estimating or predicting a fact or outcome regarding the population. Sample data (statistics) can be obtained relatively easily and if sample is representative of the population a sample survey can give an accurate indication of the population characteristics being studied (parameter). There are two broad groups of sampling methods. These are probability and non-probability sampling. Probability sampling is said to be a method whereby members have a known chance of being selected into sample.

3.7.2 Simple Random Sampling
Given that the total size of the four targeted departments, Internal Audit, Finance, Procurement and Policy is not large, simple random sampling was used to select the participants/respondents to this research from each department.

Step one – The employment numbers of all departmental members were first obtained from the Human Resources Department of the Ministry of Defence in the form of a print out.

Step two – The names from each department were written on small pieces of paper and placed in a bucket by department.

Step three – The researcher with the assistance of workmates, drew out the names of the potential respondents to form a sample. The respondents’ corresponding details were obtained and questionnaires were then distributed.

3.10 Data Collection Methods
Over and above the surveys (whereby a questionnaire was designed and pilot tested), in-depth interviews were carried out with the two executive managers namely the Principal and the Registrar. According to Saunders et al., (2009:321), unstructured interviews are informal. In this study interviewees were given the opportunity to talk freely about employee effectiveness of
internal financial control policies at the Ministry of Defence. As mentioned above, interviews were also designed to clarify some information gaps identified from the questionnaires.

3.10 Research Instrument

3.10.1 Secondary Sources of Data
This is data collected and processed by others for a purpose other than the problem at hand. Some data is already in existence either within or outside an organisation (Wegner, 2002:13). It is less expensive and researchers usually start by examining secondary data to see if their problem can be partly or wholly solved without collecting costly primary data (Kotler, 2002:64). For this particular research secondary data was found in the Public Finance Management Act, Procurement Act, the Defence Act, Ministry of Defence internal financial and business reports, the internet and various text books.

3.10.2 Primary Sources of Data
This is data captured at the point where it is generated and is captured for the first time with a specific purpose in mind (Wegner, 2002:17). Primary data is data gathered for a specific purpose or for a specific research project. This is the data gathered by the researcher which was later used for findings and discussions. The majority of the primary data for this study was gathered using the self-administered questionnaire. Other primary data sources included interviews and general observations made during the time of the study.

3.10.3 Questionnaire Construction
A questionnaire is the data collection instrument which is used to gather data in all interview situations. The design of the questionnaire is critical in ensuring the correct research questions are addressed and that accurate and appropriate data is collected (Wegner, 2002:31). Questionnaires need to be carefully developed, tested and debugged before they are administered on a large scale. The questionnaire is by far the most common instrument for collecting primary data.

The questionnaire consists of open-ended (allow respondents to answer in their own way) and closed-ended (pre-specify all the possible answers) questions (Kotler 2002:110).
According to Wegner (2002:39) a questionnaire should have three sections as follows:

- The administration section - This is recording the identity of the respondent and the interviewer, by name, date, address and where the interview was conducted including the interview number.

- The demographic section - describes the respondent by a number of demographic characteristics. These include sex, gender, location, language, qualification to name a few. The information requested is dependent upon the nature and purpose of research.

- The information sought - Makes up the major portion of the questionnaire and consists of all the questions which will extract data from respondents to address the research objectives.

Construction of the study’s questionnaire (see appendix II) was influenced by the need to ensure that the data collected will enable the research questions to be answered and objectives achieved. The questionnaire was made up of a total of 23 questions which were divided into four sections namely:

**Section A:** - contained introductory questions. To ensure total confidentiality the respondent’s name, employment number and address was not required. The questions consisted of Open ended and List questions.

**Section B:** - contained questions about the nature and characteristics of decision makers at School. Questions from this section were mainly List questions which offered the respondent a list of respondents, any of which they could choose.

**Section C:** - contained questions about the respondents’ opinion on the impact of worker participation in decision making using Rating questions. According to Saunders et al., (2009:378). Rating questions most frequently use the Likert-style rating scale in which the respondent is asked how strongly he or she agrees or disagrees with a statement or a series of statements.
**Section D:** contained questions about the respondents’ perceptions on employee participation in decision making. These questions consisted of both category and open ended questions.

### 3.11 Pilot Study

The purpose of pilot testing is to refine the questionnaires so that respondents will not encounter difficulties when answering questions. It allowed the study to assess validity and reliability of the data that was collected (Saunders et al., 2009:43).

Bell (1999:26), proposes piloting for:

- How long the questionnaires take to complete;
- The clarity of questions;
- Identifying unclear or ambiguous questions;
- Identifying questions that respondents felt uneasy to answer;
- Identifying major omissions;
- Clarity and attractiveness of layout; and
- Any useful comments.

For pilot testing the researcher used six (6) questionnaires. There was positive feedback from the respondents which resulted in reconstruction of two questions and complete removal of one question which respondents raised concern about in terms of clarity of what was being sought.

### 3.12 Administering the Questionnaire

In administering the questionnaire, the researcher was guided by the University of Zimbabwe’s code of research ethics. Once authority to conduct the research was granted and prior to the survey, a pre-survey e-mail was sent to all employees in the target departments advising them that the researcher may be contacting them requesting their voluntary participation in the study. The questionnaire and covering letter were delivered to departmental secretaries who in turn
handed them to the respective respondents. These same secretaries were tasked with the collection of the questionnaires after completion.

3.13 Research Limitations

Research limitations are the factors that presented impediments in the carrying out of this research and are discussed below.

- **Time**: Due to the limited time available for the study and tight deadline by the University of Zimbabwe, the coverage was also reduced. The researcher would have loved to do a survey of the whole public sector and get more details hence the scope was reduced to cover only Ministry of Defence due the time available for the dissertation. The time constraint was compounded with the fact that the researcher is a part-time student as he has a full-time job at the Ministry.

- **Questionnaire Design**: The use of close-ended questions such as those used in the study questionnaire with the five point scales tends to limit the possible responses to the questions. According to Rosnow and Rosenthal (2006:27) this forces respondents to answer in a specific way that is predetermined during the questionnaire design.

- **Response Styles**: this self administered questionnaire was vulnerable to response styles that may invalidate the collected data. Some participants at the Ministry of Defence may have been inclined (consciously or unconsciously) to answer questionnaires in a socially desirable manner just to please the researcher who is the Accountant and this could result in limitations for the current study.

3.14 Data Analysis

Data in this study was analyzed using Statistical Package for the Social Sciences (SPSS). SPSS is a window based program that can be used to perform data entry and analysis and to create tables and graphs. SPSS is capable of handling large amounts of data and can perform all of the analysis covered in the text and much more. It is commonly used in the social sciences and in the business world. It was used because most of the data being analysed was of a quantitative nature.
It is easy to use by making the calculation and presentation of statistics relatively easy. Consequently tables, figures and graphs were used to present the findings.

3.15 Ethical Considerations

The aim of this study is to establish the effectiveness of internal financial control policies in the Ministry of Defence. Pursuant to this, the methodology involved interaction with staff to gather information. During this undertaking, care was taken to avoid harm, of any kind, to these voluntary respondents.

3.15.1 Ensuring participants have given formal consent

According to Saunders et al. (2009:193), the concept of informed consent refers to the importance of informing the participants of the nature of the research study. Participation in this study was voluntary and respondents were assured that their responses would remain confidential and anonymous. This study this was done by attaching a self explanatory letter (see appendix 1) to each questionnaire, which explained the purpose of the research and the role of the participant. Participants were also addressed individually by the contact person (the researcher) about the nature and importance of the study when she assisted with the distribution and collection of the questionnaires.
3.15.2 Ensuring no harm comes to participants

According to (Saunders et al. 2009:194), the researcher must ensure that no harm comes to the participants of the research. The study ensured that participants were protected from both physical and psychological harm.

3.15.3 Ensuring confidentiality and anonymity

Participation in a study must not expose participants to an invasion of their privacy (University of Zimbabwe Dissertation Guidelines, 2013). Care was taken to protect the identity of participants by keeping the questionnaire anonymous. To this end the questionnaire did not require the respondent to provide either his or her name or works number so as to guarantee the respondent’s anonymity. Anonymity thus ensured there were no possible adverse consequences on participants such as victimisation by management. All information learnt about participants during their involvement in the study was maintained in the strictest confidence.

3.15.4 Ensuring that permission is obtained

The informed consent of participants is critical to research ethics (Sekaran, 2003). Saunders et al. (2009:170) also concur when they concluded organisations, groups or individuals may not be prepared to engage in additional, voluntary activities because of the time and resources required. Thus the request for access and cooperation may fail to interest the Ministry of Defence’s Permanent Secretary. The prior authorization of the Permanent Secretary of Defence was sought before the survey was carried out.

3.16 Conclusion

The chapter described the various methods and techniques used by the researcher to collect and analyse data gathered for the study to gain an in-depth understanding of the topic under study. The importance of the data collection stage was shown as the result of the analysis is dependent on the quality of the data obtained. Thus having defined the research philosophy, explained the research methodology and justified the data collection methods, the next chapter presents and discusses the results of the study.
Chapter Four – Data Presentation and Analysis

4.1 Introduction

Chapter Three outlined the research methodology which was used to gather data to establish the effectiveness of internal financial controls in the Ministry of Defence. This chapter presents research results and discussions based on empirical evidence from the questionnaires and interviews. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies and percentages were used to display the results which were presented in tables, charts and graphs. The results are discussed with reference made to literature and practical issues. The reviewed literature forms the basis upon which research conclusions and recommendations for the Ministry of Defence are drawn.

4.2 Response Rate

The research’s population consisted of 150 employees from the Finance, Policy, Procurement and Audit Departments. A total of 120 questionnaires were distributed and the results are presented in Table 4.1 and further broken down in Table 4.2. Of the 120 questionnaires distributed, 110 were returned. Most questions were analysed using percentages as they give a clearer picture of the data. The advantage of using percentages is that it reduces all figures to an equal footing from which discussions are made easier.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>No. of Questionnaires Issued</th>
<th>Responded</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>120</td>
<td>110</td>
<td>92%</td>
</tr>
</tbody>
</table>
Table 4.2: Break Down of Respondents

<table>
<thead>
<tr>
<th>Respondent by Department</th>
<th>Issued</th>
<th>Responded</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>61</td>
<td>55</td>
<td>90</td>
</tr>
<tr>
<td>Procurement</td>
<td>28</td>
<td>25</td>
<td>89</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>21</td>
<td>20</td>
<td>95</td>
</tr>
<tr>
<td>Policy</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>110</td>
<td>92</td>
</tr>
</tbody>
</table>

The overall response rate of 92% is representative, given that response rate of 60% to 80% is reasonable and representative. This is also confirmed by Saunders et al. (2009) and White (2000).

4.3 Length of Service with Ministry of Defence

![Chart showing length of service with Ministry of Defence](chart.png)

Figure 4.1: Staff length of service with Ministry of Defence
Figure 4.1 illustrates that the majority of the respondents consisting of 80% have been with the Ministry for over 5 years, while 15% of the respondents have been with the Ministry for between 3 and 4 years and 5% have been employed for between 1 and 2 years. This result suggests that the Ministry is retaining its employees. According to Luthans (2005:33) reduced employee turnover results in the accumulation of experience about standard operating procedures. This implies that the majority of the respondents are well versed in the internal financial controls found within the Ministry of Defence. This brings greater meaning to the interpretation of the results.

4.4 Level of Education

Table 4.3 Respondents’ Level of Education.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>O’ Levels</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A’ Level</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Certificate</td>
<td>11</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Diploma</td>
<td>72</td>
<td>65</td>
<td>80</td>
</tr>
<tr>
<td>Degree</td>
<td>22</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>OTHER</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTALS</td>
<td>110</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3 reveals that there were no respondents with only ‘O’ Levels as their major educational qualification, while 5%, 10%, 65% and 20% reported that they had ‘A’ Levels, Certificates, Diplomas and Degrees respectively. The result indicates that employees at the Ministry of Defence involved in the study are educated. The level of education of employees has a bearing factor on appreciating the effectiveness of internal financial controls. This implies that they understand the use of internal controls in the Ministry.

This result is in line with the requirements by the Public Service Commission which provides strict guidelines in terms qualifications of personnel when recruiting and promoting civil servants.
4.5 Internal Control Execution and Effectiveness.

Effective internal control can help companies achieve established financial goals, prevent loss of resources, keep accurate recording of transactions, and prepare reliable financial statements (Ernst & Young 2002).

4.5.1 Usage of Internal Controls

Figure 4.4 Usage of Internal Controls

Results in Figure 4.4 show that 77% of the respondents are of the opinion that there is usage of internal controls within the Ministry of Defence, while 14% of the respondents do not share this opinion and that 9% of the respondents are not sure. This result suggests that internal controls in place are being adhered to by the Ministry of Defence. The Ministry of Defence relies on passwords and access level controls in the SAP system.

4.5.2 Internal Control Execution and Effectiveness

A five-point Likert-Type Scale was used to solicit views on different forms of internal controls namely, Internal Audit, Budgetary Control, Segregation of Duties, Information Technology and Authorisation Controls, where 1 was used to represent the strongly disagree scenario on one end
and a score of 5 represented the *strongly agree* scenario on the opposite extreme end. In the middle range was quantum 2 for *disagree*, 3 *undecided* and 4 for *agree*. The two polarities were then compared by combining the two items of Likert scale on either side using percentages that is *Strongly Disagree* and *Disagree* combined on one side, and the *Strongly Agree* and *Agree* on the other side.

**4.5.3 Budgetary Controls Adequately Cover Major or high risk areas**

![Bar Chart: Budgetary Controls Adequately Cover major high risks areas.](image)

Figure 4.5 demonstrates that a total of 85% of the respondents disagree (55% disagree and 30% strongly disagree) with the assertion that Budgetary Control activities adequately cover major or high risk areas. It also demonstrates that a total of 13% of the respondents agree (8% agree and 5% strongly agrees) with the assertion whilst 2% of the respondents were undecided. This result points to a lack of effectiveness of the use of budgetary means as an internal control tool. This result is in line with secondary data shown in Table 1.1 where actual expenditures for the Ministry generally exceeded budgets for the years 2010 to 2013.

From the above result one can conclude that Budgetary controls are inadequate to cover major or high risk areas in the Defence Ministry. This result is at variance with the conclusions reached by Kaplan (2013) which alluded to the value of budgetary controls as a means of risk management.
Management at the Ministry of Defence needs to explore further the underlying reasons for this result as it is worrisome.

4.5.4 Budgetary Control gives Assurance on efficient and effective use of economic resource

![Budgetary Controls Gives Assurance on efficient and Effective use of Economic Resources](image)

**Figure 4.6: Budgetary Controls and Economic Use of Resources**

The question sought to explore whether Budgetary Control gives Assurance on efficient and effective use of economic resource. Figure 4.9 illustrate that a combined total of 80% of the respondents disagree (33% strongly disagree and 47% disagree) with the statement that budgetary controls gives assurance on the efficient and effective use of economic resources, while a total of 18% agree (12% agree and 6% strongly agree) with the statement and 2% of the respondents were undecided. This result is further indication of the ineffectiveness of the internal controls that are in place at the Ministry of Defence.

However the Ministry of Defence’s objectives and control mechanisms are guided by the Ministry of Finance through policy instruments such as the PFMS Act (2009) and Treasury Instructions. This creates a challenge not only for the MOD but for the rest of the public sector in that internal financial controls are created centrally by Treasury (top down approach) without regard for the unique challenges faced by different Ministries such as security Ministries.
4.5.5 Internal Audit (IA) activities adequately cover major or high risk areas

![Internal Audit Activities Adequately Cover Major Risks](image)

**Figure 4.7: IA and Risk Cover**

Figure 4.7 above illustrate that 90% of the respondents agree (25% agree and 65% strongly agree) with the proposition that internal audit activities adequately cover major risk areas, while 8% of the respondents do not agree (4% strongly disagree and 4% disagree) and 2% are undecided. This result suggests that internal audit activities are effective in covering major risks. This result is in-line with the findings from the audit reports where it is shown that internal audits have resulted in the uncovering of several cases of misappropriation of funds during the financial year 2012 to 2013.
4.5.6 Internal Audit (IA) contributes to the prevention of fraud, error, loss and damage of assets

Figure 4.8 reveals that the majority of the respondents 90% disagree (43% strongly disagree and 47% disagree) with the notion that internal audit activities contributes to the prevention of fraud, errors, loss and damage of assets whilst 8% agree (3% strongly agree and 5% agree) and 2% of the respondents are revealed as being undecided. The result implies that Internal Audit activities do not contribute to the prevention of fraud, error, loss and damage of assets. This result is supported by the view of the Institute of Internal Auditors (2013) which specifically mentions the role of internal audit as detection of fraud, error, loss and damage of assets rather than prevention.

This result is also supported by results from the interview with the Chief Internal Auditor concerning the perception of ineffectiveness of the Internal Audit citing the following reasons:

- Lack of Audit Manual – the MOD does not have its own audit manual designed to facilitate with audit procedures.
- Lack professional independence – there is no auditor independence as evidenced by the selective prosecution of fraudulent cases. There is always some political interference.
• Absence of Audit Charter and Audit Committees – contrary to good corporate governance practice (Turnbull Report, 1992) the MOD does not have an Audit Charter or an Audit Committee at Board level.
• Demotivated Auditors – staff satisfaction indices (2013) show that the majority of MOD personnel including auditors are dissatisfied with their levels of remuneration.
• Occupational hazard for example reprisals from perpetrators of fraud.

4.6 Organisational Activities are adequately fragmented to prevent risk

![Organisational Activities are adequately fragmented to prevent risk](image)

Figure 4.9: Fragmentation of Activities and Risk Prevention

Figure 4.9 indicates that a total of 90% of the respondents agree (43% strongly agree and 47% agree) with the statement that organisational activities are adequately fragmented to prevent risk. The figure also shows that a total of 8% of the respondents disagree (3% strongly disagree and 5% disagree) with the same statement, while the remaining 2% of the respondents were undecided. This result is in line with the objective of segregation of duties made by Dearborn, (2013) that it is the allocation of work so that an individual cannot both perpetrate and conceal errors or fraud in the normal course of their duties. This result implies that as an internal control activity segregation of duties is effective however its effectiveness may be hampered by activities such as collusion, human error and management override. The environment for
effective fragmentation of duties has been eroded in the Ministry by the Government wide freeze on recruitment to as a cost containment measure.

4.

7 Information Technology Controls ensure security, integrity and availability of information

![Information Technology ensure Security, Integrity and Availability of Information.](image)

Figure 4.10: Information Technology and Security

The results shown in Figure 4.10 indicates that a combined total of 56% of the respondents disagree (34% disagreed and 22% strongly disagreed) with the notion that Information Technology ensures security, integrity and availability of information, whilst a total of 33% of the respondents (9% strongly agreed and 24% agreed) with the notion. The remaining 11% of the respondents were undecided. From this result it can be concluded that Information Technology as a control tool is not effective. However it is important to note that 33% of the respondents that are agreed with the statement are significant and as such management can inquire further to establish the positives that they can build on. This implies that management at the Ministry cannot rely solely on information technology controls as they are ineffective on their own. One of the Audit Reports revealed that passwords to access the SAP System are routinely shared amongst colleagues with one case showing an employee who was on leave supposedly logging on to the SAP System.
4.8 Authorisation control levels in place ensure that policies and objectives are implemented in an efficient and effective manner

![Authorisation levels and policy implementation](image)

**Figure 4.11: Authorisation Levels and Policy Implementation**

The findings in Figure 4.11 reveal that a total of 64% of the respondents (24% strongly agreed and 40% agreed) with the suggestion that Authorisation control levels in place ensure that policies and objectives are implemented in an efficient and effective manner while a total of 28% of the respondents (9% strongly disagreed and 19% disagreed) with the above suggestion. The remaining 8% was undecided. This result in line with conventional wisdom where in a Military set up like the Ministry of Defence, authority is paramount.
4.9 Challenges faced by Ministry of Defence in Implementing Internal Controls

![Challenges faced by MOD in Implementing Internal Controls](image)

Figure 4.12: Challenges of Implementation

The following findings were noted from the respondents when they were asked to proffer their opinion on the challenges faced by the Ministry of Defence in implementing internal controls. The responses were many and varied and these were grouped according to similarities and the results are illustrated in Figure 4.12. The majority of the respondents 47% opined that political interference and or management over-rides were the biggest challenge to implementation followed by sharing passwords/collusion (23%), outdated manuals (20%) and lack of training (10%) respectively.

4.10 Strategies for Effective Implementation of internal controls

<table>
<thead>
<tr>
<th>Suggested Strategy</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper Induction Training</td>
<td>13</td>
</tr>
<tr>
<td>Deterrent Measures (Disciplinary action)</td>
<td>24</td>
</tr>
<tr>
<td>Training &amp; retraining</td>
<td>26</td>
</tr>
<tr>
<td>Continuously Updating Manuals</td>
<td>37</td>
</tr>
</tbody>
</table>

Table 4.3
The study sought to solicit strategies for effective implementation of internal controls. According to the study findings in Table 4.3, strategies that can be adopted for effective implementation of internal controls are: Continuously Updating Manuals (37%); Training & retraining (26%); Deterrent Measures (Disciplinary action) (24%) and Proper Induction Training (13%). This result shows that the majority of the respondents are of the opinion that continuously updating policy and procedures manuals can result in enhanced effectiveness of internal control. However, it is important to note that other strategies are equally important given the significant responses provided. This implies management at the Ministry of Defence can resort to multiple strategies to enhance effectiveness of internal financial controls.

4.11 Opinion on overall effectiveness of Internal Controls

![Figure 4.13: Effectiveness of Internal Controls](image)

The results shown in Figure 4.13 indicate that 68% of the respondents did not agree with the statement that Internal Controls at the Ministry of Defence are effective while 25% of the respondents agreed and 7% of the respondents were not sure. This implies that internal controls in place are not effective. This result is in tandem with earlier results as indicated in Figures 4.5, 4.6, 4.8 and 4.10. This result is in conformity with results of the interviews with the Chief Internal Auditor and one of the Directors were it was generally agreed that internal controls in...
the Ministry where ineffective numerous reasons including expenditure overflows; sharing of passwords; adverse audit reports and collusion.

Factors outside the control or influence of management can affect the Ministry’s ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent controls can affect meeting the Ministry’s objectives. The Ministry of Defence for security reasons bears a lot of political influence which sometimes renders internal controls ineffective. Therefore, once in place, internal control provides reasonable, not absolute, assurance of meeting agency objectives.

4.12 Summary

This chapter presented the study findings and their discussion. The major issues discussed included the back information of the respondents. Compliance to internal controls, effectiveness of internal controls, challenges in the use of internal controls and potential strategies to mitigate against the challenges were some of the issues that were discussed. The results pointed to a lack of effectiveness of the internal controls in place at the MOD despite general consensus that internal controls were being adhered to. It is also important to note that the study revealed that there are challenges faced in using internal controls. The following chapter five discusses the conclusions and recommendations.
CHAPTER 5 - CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The chapter draws conclusions and recommends strategies the Ministry of Defence can use to ensure effective implementation of internal controls based on the study findings. The chapter also recommends areas of further study.

5.2 Conclusions
Conclusions were drawn from the last chapters through their respective objectives.

5.2.1 Adherence to Internal Controls.
The personnel at the Ministry of Defence are adhering to internal controls in place based on study results. This was evidenced by the acknowledgement of usage of the controls and the 2013 yearend Audit Report. This conclusion is also supported by responses revealed by Figure 4.4 above.

5.2.2 Effectiveness of Internal Financial Controls
The Ministry of Defence employees’ opinion on the effectiveness of Internal Controls was investigated and established that they are not in agreement with the majority of the literature on Internal Controls that conclude that Internal Controls are effective in enterprise risk management. This is confirmed by 68% of the respondents who did not agree with the suggestion that Internal Controls at the Ministry of Defence are effective as shown in Figure 4.13. It is therefore apparent that employees are aware of the existence of Internal Controls (as shown by adherence to them) but do not believe in their effectiveness.

5.2.3 Challenges to Effective Use of Internal Controls
The use of internal controls in the Public Sector faces many challenges ranging from political interference and/or management over-rides, sharing passwords/ collusion, using outdated procedure manuals, lack of training to lack of funding. A deliberate effort must be made to ensure that a conducive environment is created for internal control systems to be effective. However it is important to realise that creating this conducive environment calls for a lot of
determination on the part of the managers given some of the challenges such as political interference.

5.2.4 **Possible Strategies for Effective use of Internal Controls**
Potential strategies were investigated and several options were identified namely; Proper Induction Training, Deterrent Measures (Disciplinary action), Training & retraining and Continuously Updating Manuals.

**TESTING THE PROPOSITION**

The research has revealed that whilst employees are adhering to the use of Internal Controls put in place, however the effectiveness these controls is lacking. Thus having internal controls and enjoying the benefits they bring are two different things.

**5.3 RECOMMENDATIONS**

Recommendations were made based on findings and what gaps needs to be filled.

**5.3.1 Adherence to Internal Controls**

i. The management must cement on employee’s adherence to use of internal controls in place. Employees need to be kept motivated to continue adhering to internal controls. One way of achieving this is by ensuring that the controls in place are effective. If the current scenario is whereby employees are not convince of the effectiveness of internal controls is maintained it will not be long before employees start questioning why they should follow controls them deem to be in-effective.
5.3.2 Effectiveness of Internal Controls at the MOD

ii. There must be updated policies and procedures put in place coupled with the necessary training to bring about effectiveness of internal controls. For effective results to be achieved in ensuring the effectiveness of internal controls there it is imperative for the Directors to show their support. The internal auditors need to be empowered and protected. The senior management including the Minister of Defence need to take audit reports and recommendations seriously.

Challenges of using Internal Controls

iii. There is need to professionalise the Ministry of Defence in order to eradicate instances of political interference and management overrides. Employees who flout internal controls must face disciplinary action without fear or favour. Above all the Ministry of Finance must play its role by ensuring adequate funding is provided to minimise budget over-runs.

5.4 FURTHER STUDIES

This study suggests that employees are not involved in setting up internal controls in the public sector; it would worth investigating the involvement of employees in setting up internal control systems in the public sector.
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Ministry of Finance call circular, 2010-2013


The Constitution of Zimbabwe Amendment (No. 20) Act of 2013

Appendices

Appendix 2

SECTION A: Introductory Questions:

1. Department: ..............................................................................................................

2. Designation: ...........................................................................................................

3. Gender................................................. F                     M

4. Length of Service at Ministry of Finance: ..............................................................
   >1 Year                     1-2 Years                     3-4 Years             < 5 Years
   [ ]                          [ ]                          [ ]                  [ ]

5. Where do you rate your level of education?

   Degree................................................................. [ ]
   Diploma ............................................................ [ ]
   Certificate......................................................... [ ]
   A’ Levels......................................................... [ ]
   O’ Levels......................................................... [ ]
   OTHER...................................................................... [ ]

6. To whom are you responsible: .................................................................

7. Do you consider yourself as part of the management team?
   Yes [ ]
   No  [ ]
SECTION B: Internal Audit Execution and Effectiveness

8. In your opinion how do you describe the nature of Financial Control Policies at the Ministry of Defence?

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Not sure</th>
<th>Poor</th>
<th>Very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

Indicate with a tick how much you agree or disagree with the following statements Internal Controls in Ministry of Defence. 1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.

**Please tick the Appropriate Box for Each Question:**

<table>
<thead>
<tr>
<th>Q</th>
<th>Aspect in the Internal Control</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Internal audit (IA) activities adequately cover major or high risk areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>IA gives assurance on efficient and effective use of economic resource utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>BC activities adequately cover major or high risk areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>BC gives assurance on efficient and effective use of economic resource utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Organisational activities are adequately fragmented to prevent risk.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td><strong>Information Technology Controls</strong> ensure security, integrity and availability of information.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td><strong>Authorisation control levels</strong> in place ensure that policies and objectives are implemented in an efficient and effective manner.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION C:

16. In your opinion to what are the challenges faced by the Ministry of Defence in using Internal Controls?

........................................................................................................................................................................
........................................................................................................................................................................
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17. What are the possible strategies that need to be implemented to enhance usage of internal controls at the Ministry of Defence?

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

18. Are internal controls in place effective or not........Yes. No

19. What is your overall opinion on the effectiveness of internal financial controls at the Ministry of Defence?

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
Appendix 3

Interview Questions

1. How is the internal control architecture constituted?
2. What are the challenges with Internal Financial Controls in place at the Ministry of Defence?
3. What are the common issues that have come out of the audit reports in the past three years?
4. Does the Ministry of Defence have an Audit Committee and risk management policy?
5. How effective are the Ministry’s internal financial controls?
Appendix 4

6106 Granary Park
Phase 3
Zvimba

The Director Finance and Human Resources
Ministry of Defence
P. Bag 7713
Causeway, Harare

20 February 2014

Dear Sir,

RE: PERMISSION TO UNDERTAKE MY MBA RESEARCH AT THE MINISTRY OF DEFENCE ON EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS.

I am an MBA student at the University of Zimbabwe and do hereby request your permission to conduct my academic research in your ministry. My research will include one on one interview with some of your Directors/Employees, circulating a questionnaire as well as getting some data from your financial records.

I will ensure that, this will not interfere with the daily running of your organisation activities.

Yours faithfully,

Tirivangani Matare
MBA Student, UZ
Appendix 5

6106 Granary Park
Phase 3
Zvimba

28 February 2014

Dear Sir,

RE: PERMISSION TO UNDERTAKE AN MBA RESEARCH AT THE MINISTRY OF DEFENCE ON EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS.

Reference is made to your request dated 20 February 2014, asking for permission to conduct an academic research in our ministry.

Authority is hereby granted to proceed with your research to further your studies. It is however important to note that the research should only be restricted to academic use not for other purposes unless express authority has been given.

The ministry wishes you the best in your studies.

Thank you.

D Muvandi
For Secretary for Defence