



Impact of Internal Control Systems on the Growth of Manufacturing Industries

Jacqueline Chamadenga

Masters of Business Administration, DMI St John the Baptist University

ABSTRACT

Internal control systems have proven to be an essential aspect of financial management within an organization. The study aimed at understanding the influences of internal control of Manufacturing industries in Lilongwe. The objectives of the study were for the researcher to find out the influences that internal control systems bring forth at the Manufacturing Industries Limited and it has been using internal control, evaluate positive and negative influences of internal control systems. To effectively execute the study, the research was qualitatively designed and data was collected using questionnaire. The respondents were purposively selected and the data was analyzed using statistical package for the social sciences and excel. The study took place at Lilongwe from November 2022 to February 2023. The study developed understanding of the extent to how internal control system promotes accountability, prevent fraud and improve operational efficiency by improving the accuracy and timelines of financial reporting. It also clearly established that internal control systems have been proven to be an essential aspect that helps an organization to prevent errors and minimize wastage. Furthermore, the researcher discovered the cost effectiveness of internal control systems as it becomes very easy to prevent fraud. Despite the fact that internal control is more of positive rewards, the researcher discovered that internal control systems are costly to implement.

Introduction

Internal control this are mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud, Seward (2015). Beside complying with laws and regulations and preventing employees from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timelines of financial reporting.

Internal control has proven to be an essential aspect that helps an organization to prevent fraud, errors and minimize wastage, Seward (2015). custody of assets is strengthened, it provides assurance to management on the dependability of accounting data that eliminates unnecessary suspicion and helps in maintenance of adequate and reliable accounting records.

Literature Review

Empirical evidence

To understand the influences of internal control at Manufacturing Industries Limited.

A study by Karagiorgos, Drogas and Dimou (2010) it was centered on the effectiveness of internal control systems of Greek Banking Sector. The study focused on the requirement of a well-organized internal control system. They concluded that such a system ensured safe and sound institutional credit activity. Internal control saves credit institution's activities.

The attitude of Greek banks towards application of "risk based" approach was the matter studied by Koutoupis and Tsamis (2009). They found that international regulations were capable of reducing the risks. Internal auditing should give due and adequate care towards the risk-based approach.

Another study by Karagiorgos, Drogas and Giovanis (2011) also based their study on the evaluation of the effectiveness of internal audit in Greek hospitality industry – Hotel business. They aimed at presenting empirical evidences about the interactions between various components of internal control system and performance of internal auditing system. The findings suggested that the various components of internal audit system are of vital importance for its effectiveness. This has the capability to influence the survival and success of the business unit.

Similarly, Hadi, Khaled and Bashary (2006) based their study on the role of internal control system in the promotion of operational efficiency in Sudanese banking sector. The study aimed to highlight the importance of the various characteristics of internal control system in different establishments. They averred that in the event of any weakness in the organization structure, there would be difficulties in having proper internal control system.

Theoretical Reviews

To examine critically impacts of internal control in the management of Manufacturing Industries Limited.

Mostaf, Halim (2007) evaluated the methods and tools of internal control system in the Sudanese banking system. It identified the methods and tools of internal control system and the scientific basics of auditing. The study showed that using internal control system leads to the achievement of banking safety.

A study by Olatunji (2009), which focused on the impact of internal control system in banking industry in Nigeria, verified its effectiveness and efficiency. They found out that internal control system is the best control measure that could prevent and detect fraud in the banking sector. Internal control prevents and detection of frauds.

Selah, Khalid Mohammed Ahmed Mohammed (2010) studied the role of internal control system in reducing the risks associated with auditing in the Sudanese banking sector. The study adopted the perspective of the auditors. Results showed that the greater the risk of the control resulting from a defective internal control system, the greater the risk with respect to audit. Application of the rules of corporate governance in Sudanese banking sector was the main focus. They found that application of governance in the sectors increased the effectiveness of internal control system.

Mihret and Wondim (2007) studied the internal audit effectiveness on the Ethiopian public sector. It also aimed at identifying the various factors that could impact the effectiveness of internal audit services. The result highlighted that internal audit effectiveness is strongly influenced by internal audit quality and management support. However, the organizational setting and the various auditee attributes failed to have any impact on the audit effectiveness.

Conceptual Review

To recommend on how to control lapses in internal control systems in Manufacturing Industries Limited.

Badara & Saidin (2013) Study reveals the effectiveness of internal control system on the internal audit effectiveness at local government level. It aimed to examine the relationship between effective internal control system and internal audit effectiveness at local government level. The result concluded that effective internal control system can influence the effectiveness of internal auditors at local level.

Petrovits, Shakespeare, Shih (2011) study revealed that the study was based on the causes and consequences of internal control problems in nonprofit organizations. It aimed to examine the cause and consequences of internal control deficiencies in the nonprofit sector using a sample of 27,495 public charities from 1999 to 2007. The result suggested that donors and government agencies react either directly or indirectly to internal control information.

Research methodology

Research methodology, according to Leedy (2005), is the general approach that the researcher takes in carrying out the research project. There are two main approaches to research, qualitative and quantitative approach. According to Altinay (2008), quantitative research aims to determine how one thing (variable) affects another in a population, by quantifying the relationships between means, correlation coefficients and others. On contrast, qualitative research aims to develop an understanding of the context in which phenomena and behaviors take place (Altinay, 2008). In qualitative research the focus is on trying to estimate things about the population, and trying to understand or relate the data to theory or ideas (Greener, 2008). With regard to this discussion, these study took quantitative methodology because as established above, the study will ultimately be immersed in the development of a full understanding of internal control systems, absorb a better insight and establish a better relationship of various systems as they collectively used in internal control system. This was eventually meant to help to uncover the influence internal control system in manufacturing industry as a whole.

Data Analysis

Tools for Data analysis Chapman (2018) defined data analysis is the process of inspecting, rearranging, modifying and transforming data to extract useful information from it before jumping into data analysis. Upon the completion of the data collection exercise through administering of questionnaire, the data will be analyzed using SPSS and Excel. Statistical packaging for the social sciences is a powerful statistical software platform used for complex statistical data analysis. SPSS is used by researchers, health researchers, survey companies, government entities, educational researchers and many more for processing and analyzing survey data.

Major Findings

The main findings from the study indicates that Castel Malawi Limited internal control systems are successful. These controlling systems helps to prevent and detect fraud, helps in controlling to prevent misstatement of financial statement and it also helps to establish company practices.

The sample of the study consisted of (28) respondents both male and female, ranging from 21 years old to 61 years old.

The result also showed that,

The study shows that the organization structure of Castel Malawi Limited Lilongwe influences internal control systems and the lines of authorities are clearly defined which helps with the operation of the organization.

The study shows that the cheques received are in names of the organization and bank reconciliations are done properly which prevents fraud.

The study also indicates that the reported overtime hours are verified and changes to employee status or rate is approved by an appropriate official. This information is also documented and maintained in personal files.

Suggestions

According to these results, it is recommended that Castel Malawi Limited Lilongwe;

- * Should have policy on asset purchase by calling for a management meeting.
- * Should appoint an insurance company to have all assets insured against fire and burglary.
- * Should make sure personnel policies are maintained and distributed to staff.
- * Should enhance authentication on bank reconciliation by making sure that the person responsible for sales recording and the person responsible for cheques deposits are not the same.
- * Should perform a self-evaluation of internal control systems by providing employees with training and development.

Conclusion

The research aim and objectives were successfully achieved as the study had to analyse the influence of internal control systems. Through the specific objectives set the research has addressed all elements required to be examined while examining the influence of internal control systems. For example, the study has uncovered that direct marketing is imperatively used to reduce the risks of fraud. Furthermore, it is also uncovered that internal control systems

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