

**THE EFFECT OF INTERNAL CONTROL SYSTEMS ON INVENTORY MANAGEMENT  
IN MANUFACTURING INDUSTRIES**

**(A case study of East African Paint Manufacturers limited)**

**BY**

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**DECLARATION**

I declare that this report is my original work and has never been submitted to any Institution or any University for award for a degree or a diploma where other published articles have been used due acknowledgement was made.

Signature

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Date 1<sup>st</sup> January 2011.

## DEDICATION

I dedicate this research report to my beloved Mother Mrs. Eseza Nasaka and my beloved father Kakinda Jolly for the support financially, morally and all around parental guidance that has greatly inspired me in the success to my academic endeavors, and also I thank my brothers and sisters for the encouragement they extended to me throughout my course

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I am so grateful to my colleagues at the time of study, most especially at Kampala International University brothers and sisters, friends for the valuable contribution they have extended to wards the success of my study. May God bless them all.

## ABBREVIATIONS

E.A.P.M.L. East African Paints Manufacturers Limited

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## ABSTRACT

The topic for the study was the effect of internal control systems on inventory management in manufacturing industries.

The case study being East African paints manufacturers limited which is located on plot 3 channel close off 6<sup>th</sup> street industrial area

The hypothesis for the study stated that the role of internal controls has no significant effect in inventory managements.

The researcher used questionnaires, interviews and observation method to gather the information.

The researcher got the following findings in the process of the study.

The study revealed the some controls have been put in place such as purchase controls safe guard of assets, revenue collection, and controls payments of wages among others. There is need to strengthen internal control system and all stake holders must support this to protect the organization and other resources.

## CHAPTER ONE

### 1.1 BACKGROUND OF THE STUDY.

Internal control comprises measures and methods adopted by management of an organization to safe guard its assets check the accuracy and reliability of accounting data promote operational efficiency and encourage the hence to prescribe management polices (American) institute of certified accountant.

According to Meign 1984 internal controls are set to reinsure that the following objectives are achieved.

- (i). Transactions are carried out in accordance with appropriate authority.
- (ii). All transactions and other events are promptly recorded at correct amounts in appropriate accounts and improper accounting period to as to permit preparation of financial statements is in accordance with: the preparing frame work.
- (iii). Access to assets is permitted only in accordance with proper authorization.
- (iv). Recorded assets are compared with existing assets periodically and corrective action taken in case of differences.

Good internal control this means of providing accurate cost data for inventories and cost of goods sold as well as accuracy in reporting physical quantities inadequate internal controls may cause loss by permitting erroneous cost data to be used by management in setting prices and in making other decisions based on reported profit margin (A.H. MAILLICAMP,1996).

Inventory management refers to the ways in which inventory management.... to handle its costs return on investment and its risks factors the objectives of the study.

The inventory management should be the maximization of the value of the firm (I.M Pandiey 1996) inventories are stock of the product or company manufacturing for sale and components that make up the product work in process and finished goods firms that deal in the production of semi-manufactured products and finished goods examples of

industries in Uganda are Mukwano Industries, MADIVANI Industries, E. African paints a manufacturers and many others.

The E. A. P. M. L was founded by the indigenous Ugandans for the production of paints and varnishes are related products. The company started production paints at the beginning of June 2002

It produces water based paints such as eco-mart sogle mart premium standard cover weather bond and winy silk geography of Uganda, despite the existence of an internal controls system in experiencing improper inventory management in firms is for a frequent purpose which can be summarized in smooth operations by copying various functions within the firm, We need a beret of inventory in the firm which is neither too high nor too low,

A level of inventory that ensures constant smooth operations as a minimum cost and this is known as the optimal level of inventory.

## 1.2 STATEMENT OF THE PROBLEM.

From the E.A.P.M management report soon it is noted that the system of enforcing proper documentation of cash receipts and filling as control measures are not taken seriously. Also stock taking is not serious monitored as indicated by the table below.

### LOCAL PRODUCTION (000)

YEAR	2008	2009	2010
PRODUCTION	2451	2008	1932

### **1.3. PURPOSE OF THE STUDY.**

The purpose of the research was to evaluate the effectiveness of the internal control system on inventory management in East African paints manufacturers.

### **1.4. OBJECTIVES OF THE STUDY.**

- a) To establish the different types of the internal control system in E. African paints manufacturers Limited.
- b) To establish the relationship between control and inventory management.
- c) To evaluate the effectiveness of the internal control system in B. African manufacturers Limited.

### **1.5. RESEARCH QUESTIONS.**

- a) Internal control system is in B. African paints manufacturers Limited and what are its challenges?
- b) Is there any relationship between internal control and inventory management?
- c) What are the economic implications of the internal control system in E. African paints manufacturers evaluated?

### **1.6. SCOPE OF THE STUDY.**

**Subject scope:**

The emphasis was laid down on evaluation of internal control systems on inventory management in manufacturing industries.

**Geographical scope.**

The study was carried out in E. African paints manufacturers Limited located in Kampala Industrial area because of its easy accessibility.

**Time scope:**

The study was based on the performance of the industry from 2008 to 2010

## 1.7. SIGNIFICAMNCE OF THE STUDY.

The study was significance both theoretically and practically. This research was important to the management of (E.A.P.M) Limited to strengthen their internal controls and ensure proper documentation the general public, researcher and other users by providing them with:-

- (i). An insight on better control procedures and possibilities of their adaptation.
- (ii). Improve knowledge skills and understanding of other research aspects through the resultant interaction between the researcher and respondent.
- (iii). Possible areas that need to be addressed and issues for future research.

## CHAPTER TWO

### INTRODUCTION: LITERATURE REVIEW.

This chapter presents literature from different scholars on the internal control system and inventory management in manufacturing industries.

#### 2.1. THE DEFINITION OF INTERNAL CONTROL SYSTEM.

A.H. Mill champ (1985) defined internal control system as the whole system of control financial and other wise established by the management in order to carry on business of the enterprise in an orderly and efficient manager to ensure adherence to management polices.

American institute of C.P.A (1984) defines internal control system as comprising the plan of the organization and all the coordinated methods and measures adopted with the business to safe guard its assets check the accuracy and reliability of its accounting data.

The ACCA June 1992 defines internal control system as composition of control environment and control environment and control procedures. It includes all polices and procedure adopted by the directors and of an entity to assist in achieving their objectives of ensuring as far as practicable the orderly and efficient conduct of a business.

#### 2.2. OBJECTIVES OF INTERNAL CONTROL.

According to Depaule (1989) the internal control system is regarded to inventory management aims at achieving the following objectives.

- a). That there is complete accountability for all assets.
- b). Use and access towards assets are made only with in proper authorization.
- c). There is a periodical verification and companies of asses in existence with accounting and appropriate actions are taken with regard to any differences.
- d). The adequate accounting systems appropriate to size and nature of business is in existence.

- e). The transactions are entered in the related books of accounts regularly, correctly and Systematically according to the accounting policies and procedures.
- f). That all transactions are carried out with specific sanction and authorization of management.
- g). the urgent need of a timely preparation of a reliable financial information so that it can serve the interest of external parties. Therefore, without proper internal control system in manufacturing industries effective inventory levels can not be achieved at all.

### 2.3. TYPES OF INTERNAL CONTROL SYSTEMS.

The following is a description of some types of control with relevant authorities found in many enterprises including manufacturing plants and some are combination of which may ... to place some degree of reliance (Woolf 1994).

#### (i). Management.

These are the controls exercised by management out side the day to day routine of the system. They include the over all supervisory controls exercise by management, .... review of management accounts and composition ..... of with budgets the internal audit function and any other special review procedures.

#### (ii) . Authorization and approval:

All transactions should require authorization or at least approval by the appropriate responsible person. The limits for this authorization should be specified.

#### (iii). Supervision:

Any system of internal control should include the supervision of responsible official of day to day transactions and due recording therefore.

#### (iv).Arithmetical and accounting:

There fore due controls within the recording function which checks that transactions to be recorded and processed have been authorized such that all are included and correctly or accurately processed

#### (v). Physical:

There are mainly concerned with the custody of assets and involve procedures and security means designed to ensure that access is limited to authorized personnel. This includes both direct accesses via documentation.

(vi). Organization:

Enterprise should have a plan of their organization defining and allocating responsibilities and identifying ... of reporting for all aspects of this enterprises operations including control for example the delegation of authority and responsibility should be clearly specified as to avoid confusion.

(vii). There should be proper procedures to ensure that personnel have capability to commensurate with their responsibilities.

#### **2.4. FIXTURES OF A GOOD INTERNAL CONTROL SYSTEM ACCA – JUNE 1998.**

Like any other system, internal controls have the following characteristics of features that distinguish them from other systems and according to ACCA Jom 1998 the following noted:

##### **CONTROL ENVIRONMENT.**

This refers to over all attitudes, awareness and action of directors and managers regarding internal control and their importance in the entity. The control environment internal control and their importance entail the management system and co- operation culture and value shared by all employees (meige and maigs). A strong control environment does not by it self ensure the effectiveness of the over all internal control system and what matters are the following factors that affect the area of operations.

- a). The philosophy and operating style of the directors and management.
- b). The directors methods of imposing control including the internal control audit function the function of the board of directors and personnel polices and procedures.
- c). The entity organization structure and methods of assigning authority and responsibility which include die segregation of duties and supervisory controls.



#### **2.4.2. CONTROL PROCEDURES.**

This refers to those policies and procedures in addition to the control environment which are established to achieve the entity's specific objectives (meigs and maigs). The IAS list shows specific control systems as:

- Approval and control of the records.
- Reconciliation of records.
- Checking arithmetical accuracy of the records.
- Control over computerized applications and the information technology environment.
- Maintaining and receiving control accounts and trail balances.
- Limiting direct physical access to assets and records.

#### **REVIEW OF INTERNAL CONTROL.**

In manufacturing industries like EAPM limited the internal auditor has to review the adequacy and usefulness of the financial and non- financial control analyses costs and benefits of control in existence.

According to Ramaskiony (1994) the internal auditor has to ensure effective internal control system in an organization and on that note the following review has to be performed:

- (i). Review of custodianship and safe guarding of assets the internal auditor has to examine the system in existence regarding the maintainace and safe guarding custody of assets.
- (ii). Verification of the compliance with polices plans and procedures of the enterprises
- (iii). Review of relevance and reliability of information the internal auditor has to review the liability and relevance of such information like accuracy of financial and operations records examinations reports shall be timely and reviewed frequently.
- (iv). Review of utilization of resources the internal auditor has to find out as to how effectively and economically the resources of the enterprise are utilized. He should examine the efficiency of the standard norms applied for use of the resources accuracy and relevance of the standards telluride operations.

(v).Review of accomplishment goals. The internal auditor has review the various functional areas to find out the possibility of acting the over all objective of the enterprise and the specific objective of each departments.

### **INVENTORY MANAGEMENT.**

Inventories are stock of products accompany is manufacturing for sale and components that make up products that is to say it exists in three forms for example raw materials work in progress and finished goods for adequate inventory level to be achieved there must exist an effective internal control system in an organization.

### **TYPES OF INVENTORIES.**

Lucy T (1998) conveniently classified the different types of inventory as follows:

- Raw materials – the materials components fuels among others used in the manufacture of products.
- Finished goods – completed products ready for sale of distribution. The classification depends on the particular firm.

### **OBJECTIVES FOR HOLDING INVENTORY.**

Maintaining inventories involves typing up of the company's (pondey 1995). The main reason for holding stock is as follows:

- Speculative motive. Influences the decision to either increase or reduce inventory levels so as to take advantage of price fluctuations.
- Transaction motive. Emphasizes the need to maintain it to facilitate smooth production and sales.

### **2.6.3. THE OBJECTIVES OF INVENTORY CONTROL.**

Arora 1994 gave the board objective of inventory control is below.

- i). It is to avoid under stacking because it leads to the other infracting the production process.
- ii).No over stocking. It stocks up capital and causes high costs thereby resulting in adverse effect on profits.

- iii). Economy in purchase. The purchasing of materials is a specialized function, the reduction in costs.
- iv). Proper quality while purchasing raw materials due to consideration should be given to the quality so as to avoid unnecessary costs.
- v). Information about materials. The system should preferably give complete and up to date accounting information about the availability of materials.

#### **2.6.4. MATERIAL CONTROL.**

According to Arora 1994 the term material may be defined as any thing that may be stored piled. It refers to all commodities that are consumed in the process of manufacture while the term inventory is used to cover stock of raw materials components of work in progress and finished goods.

Inventory control may be defined as systematic control and regulation of purchase, storage and usage of material in such a way so as to maintain an even flow of production and at the same time avoiding excessive investment in inventories.

#### **ESSENTIAL REQUIREMENTS OF INVENTORY CONTROL.**

Arora 1994 ideally inventory control must ensure that the following requirements are fully met.

- a). Adequate records should be introduced to control materials during production and quantities manufactured for inventory.
- b). The storage of all material should be well planned in order to ensure adequate safeguard and supervision in the industry.
- c). The perpetual inventory system should be operated so that up to date information is available at the quantity of materials in stock.
- d). Materials requirement should be properly planned.
- e). There should be proper codification and classification of materials.
- f). An efficient system of internal audit and internal checks should be operated so that reliable and independent persons check all transactions involving materials.

g). There should be regular reporting to management regarding purchases, issues and stock of materials.

### **STOCK DISCREPANCIES.**

Research has shown that some times physical stock may not be in line with the stock figures in the stock records. According to CIMA 1992 there will occasions when a stock discloses discrepancies between physical amount of the item in stock and the amounts in records. The moment this occurs investigations, should be carried out immediately so as to find out the causes of such differences and appropriate actions should be taken to ensure that it does not happen again.

### **INVENTORY CONTROL MEASURES.**

Lucey Terry (1998) defines inventory controls the system used in a firm to control its investments in stock it includes recording and monitoring of stocks levels forecasting future demands and deciding when and how much to order.

According to him inventory control measures are means by which the organization puts in handling inventory the measures should be put on aspects like purchasing storage and usage of stock items.

N.K Naines (1955) viewed from manufacturing perspective and defines inventory control as:

The function and maintaining direct quantity of materials for a given production program with the minimum amount of investment inventory control deals with both purchased and manufactured items raw materials components, tools and general stores, the major inventory control measures a firm should consider includes the below.

- a). Inventory control should provide accurate information for financial control in away of budget by providing details of past consumption and future requirements.
- b). To ensure the production is not hindered for wait of various receiving items. This involves determining the correct minimum and maximum stock levels and timely submission of store reports.

- c). Inventory control should clearly point out cases of unused items purchased against special purchase requisitions received from various departments.
- d). Such measures should be able to point out clearly cases of abnormal consumption for investigation purpose.
- e). Continuous listing of absolute and surplus materials should be put up and also submitted for disposals so that either little or no capital is tied up.

According to Bufo there should be co – ordination and corporation between the various departments dealing in materials, regular reporting to manage any case related to material handling and to ensuring an efficient system of internal check is operated..

## **2.8. INTERNAL CONTROL SYSTEMS AND THEIR INHERENT LIMITATIONS.**

Isa 300 state that the directors of an entity will set up internal controls in the accounting system to achieve objectives such as specific authorization while exciting transaction, recording of correct amount in due books of accounts authorization in order to access inherent' limitations' such as the following:

1. The possibility that procedures may become 'inadequate' due to changes in conditions that compliances with procedures may determine over time.
2. The unusual requirements that the cost of an internal is not disproportionate to the potential loss that may result from its absence.
3. Most systematic internal control tends to be directed for or at routing transactions rather than non routine transactions.
4. The potential for 'Human error' due to carelessness distraction mistakes of judgments and the misunderstanding of instructions.
5. The possibility of internal controls being 'by posses' through collusion with parties out side or inside the organization.

The possibility that a person responsible for exercising an internal control could abuse the responsibility of over riding an internal control system.

## 2.9. RELATIONSHIP BETWEEN INTERNAL CONTROL AND INVENTORY MANAGEMENT (Meigs and Meigs 1998).

Good internal control is a means of providing accurate cost data for inventions and cost of goods sold as well as accuracy in reporting physical quantities inadequate internal control cause losses by permitting cost data to be used by management based on reported profits margins.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter outlines the methodology used in the study. It contains information about the research design, data sampling design, research variables, and general problems encountered in the study.

#### **3.1. RESEARCH DESIGN.**

The research design used was descriptive and case study designed in such a way that the tools to be applied were informal, interviews, administered questionnaires, and observation techniques respectively.

#### **3.2. MEASUREMENT OF VARIABLES.**

The researcher identified the independent variable while inventory levels as the dependent variables. It means that the stronger the internal control systems employees, the more economical inventory levels held for the industry.

The independent variable was measured by economical stock costs like carrying and holding costs involved and this case maximum and minimum quantities determines stock levels.

#### **3.3. SAMPLE FRAME.**

The study used representative samples which were used to arrive at rational findings adequate for the study objectives. The major sources of data were primary data.

### **3.4. SAMPLING PROCEDURE.**

The study focused on random selection of the representative sample so as to avoid business different personnel at managerial were included in the study.

### **3.5. SAMPLING DESIGN AND PROCEDURE.**

It contains the research sampling frame selectively of respondents and major reasons for having adopted the design.

### **3.6. SAMPLE SIZE.**

The total number of respondents chosen for the study was to employees at different departments of the organization.

### **3.7. SOURCE OF DATA.**

This study had two major sources of data collection which include the primary and secondary.

#### **3.7.1. THE S INCLUDES DATA FROM ITS ORIGINAL SOURCES WHICH WAS FROM INDUSTRY.**

#### **3.7.2. THE SECONDARY DATA.**

The study also included data from secondary sources such as journals and reviewed literature from previous related topic from relevant sources of study.



## CHAPTER FOUR.

### PRESENTATION AND INTERPRETATION OF THE FINDINGS.

#### Introduction:

The data was collected from the field using the methodology described in chapter three. This chapter therefore deals with presentation analysis and discussion of findings.

The data was collected to answer the research questions following the research objectives which were stated in chapter one. Data is presented in tabular form and pie chart from and thereafter it is discussed and analyzed.

#### 4.1. DEMOGRAPHIC DATA OF THE RESPONDENTS..

Table 4.1 Respondents Gender.

SEX	NO OF RESPONDENTS.	PERCENTAGE.
Male	20	80
Female	5	20
Total	25	100

*Sources of data.*

The above shows that most of the respondents were males with a percentage of 80 while the females were only represented by 20% from the Table 4:1 and figure (i) below most (48%) respondents had reached diploma level. It was also established that (28%) and certificates 12% had degrees, 8% were others meaning dropouts like sweepers and cleaners and 4% had masters degree.

Table 4:1 (ii) Education qualifications

EDUCATION LEVEL	NO OF RESPONDENTS.	PERCENTAGE.	PIE CHART DEGREE.
Certificate	7	28	100.8
Diploma	12		172.8
Bachelor Degree.	3	12	43.2
Masters	1	4	14.4
Others	2	8	25.8
<b>Total</b>	<b>28</b>	<b>100</b>	<b>360</b>

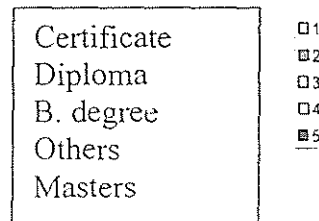
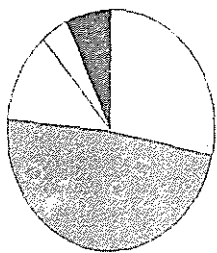


Figure 4:1 (i) pie chart Education Levels.

#### 4.2. ESTABLISHMENT OF INTERNAL CONTROL SYSTEM.

One of the objectives was to establish the different types of internal control system in an organization as representing by E.A.P.M limited. A survey of 25 respondents revealed that 40% respondents participated in formulating internal controls while 60% rejected that it was also established that a number of controls like purchase controls safe guard of assets revenue collection controls payments of wages had been put in place by E.A.P.M.L. (Table 4:2 (i))

Table of participation of formulating internal controls.

Response category.	No of respondents.	Percentage.
Yes	10	40
No	15	60
Total	25	100

*Source primary data.*

Table 4 : 2 (ii) shows that management is responsible 80% for the formulation of internal control in E.A.P.M.L while 3% of the respondents were of the view that it was responsibility of others who included board of directors.

Table 4:2 formulation internal controls.

Respondents	No of respondents	Percentage.
Management	15	60
Management and employees	5	20
Employees	3	12
Others	2	8
Total	25	100

*Primary Data.*

**Table 4 : 2 (ii) Acceptance/ reaction.**

Response category	No of respondents	Percentage.
Very Extent	4	16
Great Extent	10	40
Not sure	2	8
Low Extent	8	32
Very low Extent	1	4
<b>Total</b>	<b>25</b>	<b>100</b>

From one Table 4:2 (iii) above the study re..... that management of E.A.M.P.L fairly 40% accepts and ... to audit recommendations given to it. It was also established that 4% believed that management does not accept and react to audit recommendations.

**Table 4:2 (iv).**

Whether internal audit is allowed free access of assets and information.

Response category	No of Respondents	Percentage
Yes	10	40
No	15	60
<b>Total</b>	<b>25</b>	<b>100</b>

Table 4:2 (iv) above reveals that internal audit is allowed free assets and information throughout E.A.M.P.L while 60% refused to allegation.

#### 4.3 INTERNAL CONTROLS AND INVENTORY MANAGEMENT.

Another objective of this study was to know the effectiveness of internal control system on inventory management and to find out the relationship between the inventories consists and inventory management.

**Table 4:3 segregation between Authorizing recording and custody of stock.**

Response category	No of response	Percentage
Yes	8	32
No	12	48
Total	20	100

Source primary Data.

Table 4:3 (1) above reveals that 32% of the respondents agreed that there is segregation between sold. The remaining 20% represent these who said that they were not used.

**Table 4:3 rating of assets inventory management**

Response category	No of respondents	Percentage
Very adequate	4	16
Adequate	10	40
Moderate	8	32
inadequate	3	12
Total	25	100

Source primary Data.

The results in the table 4:3 (ii) shows that there is adequate (40%) segregation of duties regarding asset management while 12% say that they were inadequate.

**4:3 (iii) Physical counts of inventory in stock.**

Response category	No of Respondents	Percentage.
Yes	20	80
No	5	20
Total	25	100

*Source: Primary Data.*

From the above Table 4:3 (iii) 80% respondents disagreed on information regarding physical count inventory in stock.

**4:3 (iv). Adherence to internal controls in inventory management.**

Response category	No of respondents	Percentage
Very Great Extent	4	16
Great	10	40
Not sure	3	12
Less extent	8	32
Total	25	100

The above table shows that adherence to internal controls management is to a great extent at 40% while 32% shows that adherence to internal controls of the inventory management is to a less extent.

Relationship between internal controls and inventory management ... 4:3 (ii) showed the opinion how staff members rated inventory management while table 4:3 (iii) showed how staff rates adherence to internal controls management. Table 4:4 (i) below is abivariate frequency table shows the relationship between internal controls and inventories management.

The above table shows that out of 10 respondents who rated internal controls as to a great extent, 50% also agreed that inventory management. That adequate while out of 8 respondents who said that the internal controls were adhered to a less extent were also of the view that inventory management was inadequate 66.7%.

## CHAPTER FIVE

### DISCUSSIONS, SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction.

During the study the researcher collected various responses on the idea that has the establishment of E.A.P.M limited benefited the people in the area. Various opinion as interviewed out of the total number of 25 respondents as shown in the table 80% of the respondents said that it has significantly benefited them through offering them job opportunities where by most of the local people are employed in the paint company as managers) sales, executives, machine operators etc.

Data presented in table 2 shows the highest response on the benefits of East African Manufacturers paint Limited that it has enabled the people in the area to get jobs in the company.

East African Paint Manufacturers has significantly tried to improve the incomes of the people in the areas from that 25 people respondents interviewed as shown in the table are from the 25 respondents interviewed as shown in chapter iv table 4:2 20 respondents accepted that there has been a tremendous improvement in their incomes and 20 respondents showed that the incomes have not been improved while 5 respondents did not show up a response as regards to improvement of incomes of the people who are employed in the company therefore, one can say that generally the incomes of people in East African Paints Manufacturers in the area because of the establishment of the company.

Chapter IV table 3 the investigations showed that out of 25 respondents interviewed 20 respondents say that there are benefits given to employees to termination of their job shows the biggest percentage However, the few said there are no such benefits in the company. In other wise internal controls are the polices and procedures adopted by the management of an entity to ensure efficient operations of the organization



(meigs and mergs 1988). It is important to note that inventory control system can be established by the top management with the assistance of Audit manager with reasonable assurances

The findings in the table 2 according to the number of respondents received show that out of 25 selected 15 shows the participating of formulating internal control systems. And according to the researcher I can define the results by giving the above information of the discussion as in the way that it respondents the 3 in the chapter IV shows the segregation between Authorizing recording and custody of stock and in the table as in the chapter IV 4:3 the table its shows that there is adequate 40% segregation of duties regarding asset management while 3 respondents say that they were inadequate. Thus a good internal control system on inventories can only minimize as far as practicable occurrence of inventory losses but not completely eliminate them. Hence in East African paints manufacturers Limited internal control can only provide reasonable assurance that it's objectives of internal controls are attained

A data finding was presented according to the objectives of the study and the study questions.

The findings were got from the primary source of data as presented in tables. These findings have been organized under the following sections. This section related the inventory management process in East African Paints Manufacturers Limited Uganda to the research questions and literature reviewed. The findings were classified into four groups including materials management process inventory management techniques inventory models. Cost benefits analysis and inventory constraints NB.

Internal controls are the polices and procedures adopted by the management of an entity to ensure efficient operations of the organization (Meig and Meigs 1988). It is important to note that inventory controls system can be established by the top management with reasonable assurance that the objectives of internal controls are achievable besides the inherent limitation that influences the control system.

This chapter outlines the summary conclusion and recommendations put forward concerning the findings as regard to the importance of the internal control systems on inventory management on E.A.M.P.L and the significance composition of stock to current assets.

## 5.1 SUMMARY OF THE MAJOR FINDINGS.

The researcher got 25 respondents out of the 20 questionnaires that were issued to E.A.M.P.L. The demographic data of respondents was majority the males with 80% Diploma Qualifications were dominated in the company by 48%.

40% E.A.M.P.L anticipate in formulating internal controls internal check is done annually at 40%, 32% said that there is segregation between authorizing recording and custody of stock items.

Adherence to internal controls on inventory management was to a great extent at 40% the relationship between the internal controls and inventory management was to a great extent at 50%.

This research was guided by the following research questions.

What internal control systems exist in E.A.M.P.L?

How is the effectiveness of the internal control system in E.A.M.P.L evaluated?

Is there any relationship between internal control and inventory management?

For every sector to achieve its objectives it must have ICS to guard against resource mismanagement organizations and emphasize there and compliance to financial and accounting regulations (1998).

The aim of the study wanted to establish the role of internal controls on inventory management in manufacturing industries a number of researched methods were used to current data which included questionnaires, interviews and observation. The data collected was later tabulated and analyzed.

However, failures by the internal audit department to reduce quarterly/monthly audit reports have hindered the adequacy of the system management can take corrective action in suspected cases of embezzlement, payments of ghost workers unless such internal audit reports exist.

As seen in the study segregation of duties between authorizing recording and custody of stock items was not handled adequately. This problem had led to improper stock taking and lack of trust placed on the unreliable stock taking by management.

The manipulation of records and fraudulent activities were common practices based on promotion of self – interest. Therefore, management could not benefit from such records because they are inaccurate and unreliable. There is support this to protect the organization fund and other resources.

## **5.2 RECOMMENDATIONS.**

Having carried out the study which gave rise to the above conclusions the following are recommended so as to improve on the value added by the internal controls and inventory management.

The implementation of these recommendations will improve controls and reduce the risks associated with fraud and error in the organization.

Competent staff organization should recruit qualified staff in financial management and should comply with the financial and accounting regulations (1998).

Training/seminars Regular training and capacity building seminars should be put in place in order to improve on the quality to ensure that the internal control system is effective.

Quarterly internal audit reports: Organizations should strictly ensure adherence to the requirements that chief auditors produced quarterly reports and reviews the accounting

and internal control system. Any abuse of the internal control system must be handled with the utmost care. Its selves that is to say culprits should face dispulinary action.

Motivation of financial management staff the financial management staff should be properly motivated to enable them perform their duties diligently.

Segregation of duties:

It is a prime means of control to separate responsibilities because it reduces the risk of international manipulation or error and increased the element of checking.

Therefore, an effective internal control system can greatly improve the performance of large manufacturing firms coupled with other non – financial internal controls not forgetting the active encouragement and participating of the general management.

### **5.3 SUGGESTED AREAS FOR FUTURE RESEARCH.**

The following topics can be researched in future.

- Role of computerized internal control system in ensuring effective inventor management.
- Effect of collusion on the internal control system.
- The cost of internal controls in contrast in the benefits.
- The relationship between quality of management and the internal control system on inventory.

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## 6.1 APPENDIX INTERVIEW GUIDELINES.

How do you rate the effectiveness of your internal control system.

In your opinion do you think the internal system on inventory management needs some improvements?

What improvements need to be implemented?

How often are members with the functional departments related within the organization?

When are the financial statement prepared and by who?

Who are those responsible for formulating internal controls in this company?

Recommend ways for strengthening the internal control system of the firm.

**QUESTIONARIES.**

What internal control systems exist in E.A.M.P.L?

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

How is the effectiveness of the internal control system in East African Manufacturers Paints Limited?

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

Is there any relationship between internal control and inventory management?

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

**INTERVIEWS.**

Here I will interview different people in the company and these will be 25 people out of the total number in the company.

You are kindly requested to answer questions below by ticking:

1. Think you very much for your time

Sex

a). Male                       b). Female

Age

2 a). 20 – 26                       b). 27 – 33

c). 34 – 40                       d). 41 – 47

3. Qualification

a). Secondary                       b). Tertially



c). other specify

4. Time spent working in the company.

- a). 1 – 2 years                       b) 3 – 4 years   
c). below 1 year                       d). Other specify

5. Do you participate in formulating internal control?

- a). Yes                       b).No

6. How often do you carry out an up date of internal check system?

- a).Annually                       b). Semi annually   
c).Quarterly                       d) Monthly

7. How often do you report to management any weakness found in the internal check system?

- a) Annually                       b). Semi annually   
c). Quarterly                       d). Monthly

8. How often do you carry out review of the transactions carried out during period?

- a). Annually                       b). Semi annually   
c). Monthly                       d). Others (specify).

9. To what extent management accept and react to audit recommendation are given?

- a). Very great extent                       b). Great extent   
c). Not sure                       d). Low extent.

10. What does the internal auditor department do when audit recommendation are not acted upon?

- a). Remind management                       b). Do nothing   
c). File accompany                       d). Other specify

11. Does internal audit

(1)inspect assets to see if assets are for the company?

- a).Yes                       b). No

(2). Do you notice any segregation between authorizing recording and custody of stock items purchased/sold?

- a). Yes                       b). No

13. Is internal audit department achieved free access to the record and information through the company?

a). Yes  b). No

14. How do you rate segregation of duties regarding resource assets?

a). Very adequate  b). Adequate   
 c). Moderate  c). Inadequate

15. To what extent are you satisfied with the authorization of purchase of stock in

a) Very great extent  b). Great extent   
 c). Not sure  d). Low extent.

16. To what extent are you satisfied with the procedures of issuing stock?

a) Very great extent  b). Great extent   
 c). Not sure  d). Low extent

17. How effective is stock taking to management of stock?

a). Very effective  b). Effective   
 c). Moderate  d). Less effective   
 e). Not effective

18. To what extents are internal control procedure regarding inventory adhered to?

a)Very great extent  b). Great extent   
 c). Not sure  d). Less extent.

19. Are standard measures put in place in respect to the following?

	Very strong agree	Strong agree	Agree	Disagree
Efficiency of Internal controls				
Optimal inventory management				
Achievement of goals and objectives.				