ASSESSMENT OF EFFECTIVE RISK ASSESSMENT IN INCOME GENERATING IN HIGH LEARNING INSTITUTIONS IN
MBEYA UNIVERSITY OF SCIENCE AND TECHNOLOGY.

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Abstract

Concern many deficiencies in internal control as related to commitment of staff and risk assessment pose need for this study. This study aims to access the effectiveness of internal control system in income generating unit in higher learning institution. The study employed descriptive research design and use mixed research approach. The sample used where 71 out of total population of 250 and sample technique used where stratified and purposive sampling. The data collected were analyzed through descriptive and thematic analysis with help of Microsoft excel. The study found and concluded that for the internal control to function well they need to develop and improve their policies of risk management as required by effective internal control system so that it can influence the income generation unit as one of the strategies institutes used to generate income from internal activities. Moreover, management need to put much enforceability in polices formulated.

Key word: Internal control system, Internal income generation, risk identification, risk mitigation, risk management

Introduction

There general perception that well designs internal controlled to the flow of income in the institution. Moreover, the effective and efficiency internal control improve the management of fund generated and ensure improve of reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. Nevertheless, available Literature on internal control in relation to income generating unit still point the difficulties in relation to internal control which subjected to the poor management of fund and report processing (Mawanda 2008).

Internal control was firstly presented in 1949 by the American Institute of Certificated Accountants (AICPA). USA establish internal control concept to be used in making sure their public traded companies operate smoothly for this reason government introduce sarbenes-oxely Act of 2002 which focus on improving the reliability of company financial reporting and increasing the efficient of financial management in public traded companies and safeguard interest of shareholders (Masanja 2020).

Moreover, financial scandals in quoted companies both in local and international scene have been greater in number this resulted to the need for internal control system. For example, in America, investors lost $180 billion in World Com Scandal of 2002, $150 million in Tyco Scandal of 2002, $1.4 billion in Heath South Scandal of 2003 (the largest publicly traded company) and $3.9 billion in America international Group (AIG) scandal of 2005, among several financial fraudulent activities affecting publicly quoted companies. In the early 2000s, due to many accountings scandal results in greater loss of income to these companies. Also, it resulted to the need of establishing of policies and procedures which will govern them so that escape from greater loss(Kinyua 2016).Also, this concept was established due to the collapse of larger company in USA due to the insufficient ways of mitigating risk in financial statement (Rezaee 2002).Moreover, this concept shows positive effect in the whole process of managing the company and the way risk are mitigated in USA.

In European Union, the economic and current technological development influences the internal control discussion. Also, this discussion on internal control system has greater importance in the management of public sectors and public traded companies. Moreover, European union introduce internal control system to ensure the efficiency of financial management in the public sector but also for public traded companies which serves the interest of the public(European commission 2011).

In Africa, internal control system is an important aspect to ensure the safety and efficiency performance of company and ensure the internal revenue generated are effectively managed. Due to high corruption and many financial problems which leads to substantial loss of revenue in the company, many different governments in African countries implement stronger internal control system as a strategy to solve this problem (Ayagre and Osei 2014). Specifically, East African countries have their set of problems in risk management and flow of information and communication that cause difficulties in the company. This has cause companies to implement appropriate internal control systems to increase efficiency of financial management in the

government and the public traded companies(Kamau 2016). According to Yemer (2017) see the importance of having well design internal control system due to ups and down of fund management in the institution which will lead shortage of fund in the institute. Moreover, despite of having internal control system there are difficulties in which an organization may face like insecure of information within the organization (Abdullahi 2016)

Moreover, in Tanzania internal control system is still the problem in many companies. Many companies in Tanzania still struggling in implementing sound internal control system so that they can influence revenue flow and management of activities according. Inadequate internal control system to manage the fund generated lead to shortage of fund in the organization (Masanja,2020). Likewise, for public and private institutions in Tanzania, there are several reports which indicate misappropriation and misuse of funds due to internal control problems in those organizations. Moreover, the government tried to establish a well-designed internal control to make sure they tackle the problem. Also, to make sure rules, procedure, and policies are followed so that the companies can achieve their stipulate objective and goal (Ondiek 2018).Specifically, MCB Company Ltd need to ensure that all activities operate effective and all rules, policies and procedure are followed through implementing good internal control system to help them to mitigate risk and improve their employee commitment and, competence so that they can achieve the objective of the company.

Moreover, mostly university in Tanzania suffers shortage of fund due to the unstable funding from the government which lead to the provision of low-quality education to their student and hence industries will be affected since their potential beneficiaries of the university. According to (Mgaiwa 2018) reveal that continuing decrease of fund from government will lead to the shortage of fund in the university. For university to ensure they solve fund gap they establish internal activities which help them to generate income internally. Moreover, for university to ensure their internal income generating unit performs well they need strong and well design internal control system. Effectiveness of internal control on income generating unit is very important in every organization, because the task of internal control is to prevent and detect fraud in the organization. According to Kirsty (2008) as cited by (Muhunyo 2018) efficient internal controls creates an organization's confidence in its ability to perform or undertake a particular task and prevents errors and losses through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with appropriate laws and regulations. Several studies have been conducted and reveal that weak internal control still is the challenge, so the study assess the effectiveness of internal control system in income generating unit in higher learning institution.

Literature review

Agency theory

This theory arises when the owners delegate their authority to the directors of the company to execute duties on behalf and their given power in making decision on controlling the activities of the company towards the interest of the company owners. Also, this theory arises in solving the conflict between owners and the board of directors in the company towards their interest (Brian, 2013). The theory further explained that board of directors are more informative than investors making it hard for investors to determine if the directors are acting in the best interests of the company. To address the interest of both the company directors and investor, the contract should be draft in a manner that captures the two interests. A good agent-principal relationship is whereby the investor has systems that enable them to effectively monitor the work of their managers(Abdullahi and Muturi 2016).In addition, this theory supports existence of control activities, control environment and risk management in the company(Arwinge 2013). Also, Internal controls are among the mechanisms, which are normally used in addressing the agency problem, which affects the performance of business entities. Therefore, for the company to insure there is flow of revenue they need to have the sound internal control system where directors will act according to the interest of the company. Also, this study borrows from this perspective and makes assumptions that owners of MCB company have given mandate to the management of company to effectively manage their resources and ensure smooth running of the daily activities by ensuring all associated risk are identified and mitigated.

Attribution theory

Attribution theory is the social psychological theory concerned how individual interpret event and how they attribute causes to behavior. A person seeking to understand why another person did something may attribute one or more causes to that behavior. Birnberg et al. (1977) describe how people seek and use information to structure and control their social environment. Abdullahi and Muturi (2016)argue that evaluator believes similar person in a given situation would behave differently, they tend to attribute the responsibility to the employee for the outcome. Also, evaluator tend to attribute responsibility for the outcome to the situation when similar individual acted similar. The first is an internal or dispositional case whereas the second concerns itself with external or situational attributions. Also, it shows that auditor would be held accountable by evaluator when they fail to detect the occurrence of fraud risk. Moreover, evaluator need to improve responsibility of an auditor so as they can be able to identify and detect fraud risk within the company(Ibrahim 2017). Therefore, auditor is expected to gain better understanding of internal control system, evaluate the design and implement of system and test if it operates effectively. Furthermore, the boards of directors and managers are responsible for guaranteeing compliance with all regulatory and compliance issues. This theory aims to ensure that auditors are at the forefront of reporting fraud in connection with the study(James 2003). Also, this theory suggested that management need to have controls which prevent and detect all the risk that are associated with the changes in the environment.

Empirical literature Review

Hanim Fadzil et al., (2005) Found that effectiveness of all aspect of internal control system has influence in the whole management of the company and its performance on the audit department. Also, it that management of internal audit department, performance of audit work, audit program and audit reporting significantly influence the risk assessment aspect of the internal control system. Lastly, performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system. Hence for the company to perform well and ensure they achieve targe revenue generated they must have well established control activities. Musunkui (2019) in his study found and concluded that risk management measures have influence in the performance of IGUs, therefore for the internal income generation activities to perform well requires controls which are capable to prevent and detect risks available in the environment in which they do operates. Management in charge of the IGU department in the institute need to prioritize the formulation, implementation and monitoring of financial control mechanisms in the IGUs. In addition, controls established must be regular evaluated and make any changes as related to the addressing of shortcoming.

According to Njagi (2019) support this study because in his study reveal that effective internal control system clearly correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular a review of the reliability and integrity of information and communication within the organization, a review of the controls employed to the company, an assessment of employees' attitude and behavior, compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives(Amudo and Inanga 2009). In addition, (Joelle, 2019) in his study agreed that risk assessment have an influence in the financial performance since its crucial for any entity to identify all risk associated with their business environment. Also risk assessment enhances risk evaluation and risk mitigation in the company by putting risk factors into consideration.

Methodology

The study was conducted in Mbeya university of science and technology main campus and MCB company as internal income generation and it assessed the effectiveness of internal control system in income generation unit in higher learning institution. The study employed descriptive research design in which it describes internal control system used by them in control and managing their activities so that to reduce risk. The study uses primary data which were collected direct from the field through questionnaires. Stratified and purposive sampling strategy were employed in selecting sample size of 71 out of the target population of 250 as stated from the company policy. Data collected were analyzed through the use of descriptive analysis and thematic analysis. In descriptive analysis mean and standard deviation were used. Thematic analysis was used in analysis qualitative data by coding or categorizing the data collected with the help of Mc-Excel in analyzing the data collected from the field, also with use of mean, standard deviation data collected were interpreted and presented.

Findings

Examine the effectiveness of risk assessment in income generation in higher learning institution

In this question, the researcher wanted to examined the effectiveness of risk assessments as one of the functionalities of effective internal control system of the institution to determine on how risks are handled in the income generated unit. The researcher listed some of the basic measures (variables) where respondents were required to provide their opinion basing on the risk assessment in income generated unit Risk assessment determine the risk available and the way to mitigate it so every institute need to have department for the risk management in which all risk related to changes in the environment it operates will be assed and reduced. Below are the results of the findings based on risk assessment as presented by Mean and Standard deviation.

Table 4.1: MEAN AND STANDARD DEVIATION OF RISK ASSESSMENT

VARIABLES	TOTAL	MEAN	SD
All risks facing organization are measured	65	3.4308	1.0072
There is mechanism in place to identify and react to changes that may affect the income generation of the organization	65	3.7077	0.8897
Organization structure, objective and strategies are defined well	65	3.7538	0.9120
Risk is assessed in relation to changes in operation environment	65	3.4462	0.9613

Source: *Research computation's* (2022)

The result indicated that for the higher learning institution to operate effectively need to carried out regular risk management procedure to ensure all risk that may face their operation are assessed and managed. Moreover, risk facing the institution are measured as reflected by the mean value of 3.4308 which shows that respondents agree that the control system, they have the ability of identifying risk and measure them to ascertain its effects. However, there is significant deviation of values from the original mean by 1.0072 which means that the institution regular assesses and measure all risks.

In addition, based on the result it was revealed that management had put in place mechanism for mitigating risks that may result from fraud as reflected by mean value of 3.7077 and standard deviation of 0.8897 respectively. Management established the system that can detect and prevent risk and control it that are related to changes that may affect the income generation of the organization. The following are the risk that may face the institution such as public scandal, misuse of income generated, assets and personnel, and also the use of unreliable information for economic

decision supported by (Grace, 2017). Also, for the management to be able to established control system in order to manage it risk they need to provide well defined organization structure which shows chain of command in the institution, its objectives and strategies they intend to use in executed their activities so that to influence generation of income to the company as internal activities income generation this reflected by mean and standard deviation of 3.7538 and 0.9120 respectively.

Moreover, the findings reveal that risk are assessed in relation to changes of operation environment as reflected by mean and standard deviation of 3.4462 and 0.9613 respectively. Identification of risks is considered important for the achievement of the company objectives because well-developed effective internal control system can only provide reasonable assurance to the management on its achievements of entity's objectives. (Grace, 2017) considered the identification of risk and its mitigation as one of measures of effective internal control system. He says that managers should determine the areas which have most risk, what can go wrong in the operation environments. Member of organization must be informed about the possible outcomes in the organization which may lead to loss. Management must manage risk involving identification of risk, analyzing and controlling risk to ensure their internal control perform effectively so that they can influence the income generation in the institute.

Since risk measured and risk identified or assessed mean are lower than the average mean of 3.5846 then management of income generation unit need to formulate aggressive risk management strategies or policies which will help them in identifying risks and measuring risks or mitigating risks so that they can achieve the goal of generating income in the environment they do operates. Moreover, for effective internal control system must have controls which are capable of identifying risk, measuring them and mitigating so that it can influence the generation of income and it maintains in the company.

The finding is supported by (Musunkui, 2019) where his result shows that there is significance influence between the risk management and performance of ICGs which means that as the level of risk management increases also the level of performance of ICGs increases. In addition, for the income generating activities to perform well they must have strong policy which are able to identify and measure all risk that are associated with changes in their operations. (Joelle, 2019) found that respondent agreed that risk management in the company is of most important since it helps them to minimize the loss of exposure as related to SMEs. In addition, risk assessment (identification and measured) and risk are mitigated in the achievement of any entity objective is of most important because it help management to minimize the uncertainty which may led to loss of revenue generated and help on observing utilization of resources.

Discussion of Findings

According to the findings, effectiveness of risk assessment is needed in ensuring income generating unit (IGUs) function well. Moreover, well design and effective ICS must be capable for preventing and detecting risk associated with the changes in the environment they operate. Management in internal income generation unit must identify the areas which have most risk such

as loss of key personnel, public scandals, misuse of fund generated and poor utilization of resources, delay payments. (Joelle, 2019) defines risk assessment as the process of identifying and analyzing management relevant risk to the preparation of financial statement that would be presented based on the general accepted accounting principles. Management of entity must determine the level of risk carefully to be accepted and try to maintain such risk within determined level. Further, the author defined risk as process of identifying, measuring and mitigating all risk which are associated with the changes occurred in the environment in which the entity operates so that they can be able to reduce those risks, this means that any organization before operation and during operation they need to identify risk and measuring it effect. According to (Grace, 2017) where consider identification and mitigating of risk as the measure of effectiveness ICS (management need to determine areas which have most risk and mitigating them. Also, (Musunkui, 2019) suggested that risk assessment has influence on the performance of the entity as related to IGUs meaning that effective controls on risk will ensure all resource generated are utilized based on the intended purpose and ensure reliable report are provided for economic decision making.

Conclusion and Recommendation

The study concluded that a sound internal control process is critical to every entity's so as meet its objectives. This paper makes an attempt to review the effectiveness of risk assessment in income generation unit. The review found that the policies for identifying and assessing risk are not well established in relation to the changes that occur in the environment they do operate so for the management to ensure all risk areas are identified with all risk associated and mitigating them. Moreover, IGUs need to formulate controls which will be able to identify and mitigating all unforeseen outcome that may lead to loss of income generated. In addition, all issues related to poor utilization of resource and improper resource management in the institution occurred due to weakness control system established and it pose very serious threat to entire revenue generation strategies and existence of institution. In other word, institute internal revenue generation strategies are influenced by the effective control system applied by them. Hence, well-defined and implemented internal control effectiveness may have a significant impact on the revenues generating strategies and resources management. The study also recommends the institution to adopt more aggressive risk management strategies. This policy will help institute as whole to identify risk and mitigating them at early stage in relation to the changes in their operation environment. The risk management recommended includes using physical standards, trainings, techniques and tools to either prevent the perceived risks and reduce risks upon their occurrences hence protection the IGU from immerse losses.

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