

# An Investigation of the Internal Controls for Zambia Airports Corporation Limited Financial Performance

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**Abstract:** The study investigated internal controls for Zambia Airports Corporation Limited financial performance. This was necessitated by the observance of weaknesses in internal controls and financial performance of selected parastatal bodies in Zambia's Auditors General's report for the year ended 31<sup>st</sup> December, 2020. The main objective of the study was to establish the relationship between internal controls and financial performance at Zambia Airports Corporation Limited. Primary data was collected from a purpose sample of Lusaka based Zambia Airports Corporation Limited employees using questionnaire (98) as the main research tool and interview guide (5) as supplementary. Secondary data was collected through review of records such as audited financial statements, journals, and books. Quantitative data collected from questionnaires was analyzed by means of descriptive and inferential statistics. Statistical package for social sciences version 27 was also applied to complete the data analysis. Data collected from interviews was analyzed using thematic data analysis by examining themes within data. The study established a positive relationship between internal controls and financial performance. This implies that internal controls help achieve profit and revenue targets. To improve Zambia Airports Corporation Limited financial performance, it was recommended that management considers strengthening its internal controls by responding timely to evaluated risks, ensure risk management committee worked closely with internal audit committee, provide regular feedback on financial performance to its employees, conduct awareness workshop on internal controls and its importance to its employees, and ensure internal audit unit was adequately staffed.

**Keywords:** Internal Controls, Zambia Airports Corporation Limited, Financial Performance

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## 1. Introduction

The study investigated internal controls for Zambia Airports Corporation Limited financial performance.

Zambia Airports Corporation Limited is an airport operator providing services to scheduled and unscheduled flights. The Corporation is wholly owned by the Government of the

Republic of Zambia and has been in existence since 1989.

Zambia Airports Corporation Limited contributes to sustainable development and industrialization by facilitating trade and tourism which in turn generate growth, create jobs and increase Government revenues from taxes [24].

A summary of the financial performance for Zambia Airports Corporation Limited from 2017 to 2021 is provided in Table 1.

**Table 1.** Zambia Airports Corporation Limited Financial Performance- statement of profit and loss and other income for the financial years ended 31<sup>st</sup> December 2017 to 2021.

Details	2017 Zambian Kwacha	2018 Zambian Kwacha	2019 Zambian Kwacha	2020 Zambian Kwacha	2021 Zambian Kwacha
Revenue	417,345,050	496,926,326	589,305,998	269,736,479	396,936,610
Total Expenditure	371,264,457	459,546,452	514,179,302	552,322,112	688,762,901
Total Comprehensive income	28,315,676	80,410,138	119,713,657	(241,781,881)	(328,956,127)

Source: [23-27]

## 2. Statement of the Problem

In January 2017, the Corporation commenced implementation of the five years strategic plan for the period 2017 to 2021. One of the Corporation's key strategic objectives was to increase profitability by maximizing revenue and minimizing costs [27]. In the first three years, the financial performance moved in the upward trajectory. However, the situation changed in 2020. As reported in Table 1 in the introduction, the corporation experienced significant revenue decline to the extent that both 2020 and 2021 operated below the 2017, 2018 and 2019 revenue levels. While the revenue was declining, the company faced challenges in minimizing costs. This is evident from the total expenditure which actually outperformed the revenue in 2020 and 2021 financial years. Instead of maximizing revenue and minimizing cost, the opposite was actualized. This had a ripple effect on profit. The company failed to record any profit, as such the strategic objective of increasing profitability could not be realized in 2020 and 2021. The aforementioned poor financial performance of the company was below the set objectives. If not controlled internally, the company risks collapsing and employees losing jobs. This may negatively affect national economy and vision 2030 of "becoming a prosperous middle-income country" [14]. This research therefore, investigated the internal controls for Zambia Airports Corporation Limited financial performance.

## 3. Purpose and Objectives

### 3.1. Broader Purpose

The aim of this study was to investigate the internal controls for Zambia Airports Corporation Limited financial performance.

### 3.2. Main Objective

To establish the relationship between internal controls and financial performance at Zambia Airports Corporation Limited.

### 3.3. Specific Objectives

The study was guided by the following objectives:

- 1) To assess the effectiveness of internal controls at Zambia Airports Corporation Limited.
- 2) To assess the financial performance of Zambia Airports Corporation Limited.
- 3) To establish the relationship between internal controls and financial performance at Zambia Airports Corporation Limited.

## 4. Critical Literature Review of Prior and Related Research

### 4.1. Relationship Between Internal Controls and Financial Performance

A study on the impact of effective internal control

implementation on private banks financial performance in Sri Lanka, revealed that control environment, risk assessment, information and communication, and monitoring has the significant impact on the financial performance of private banks [12]. Clearly the study did not manage to establish the relationship between internal controls and financial performance. Secondly, the study focused on the effective implementation aspect of internal controls without assessing the effectiveness of the internal controls. Thirdly the study sample consisted of only executives. This study recognized the importance of establishing the relationship between internal controls and financial performance. This was preceded by assessing the effectiveness of internal controls and assessing financial performance. To ensure balanced perceptions on the study, both executive and nonexecutives constituted the sample frame. This is consistent with the stakeholder theory.

Ahmed and Muhammed [1] studied internal control system and its relationship with financial performance in telecommunication companies "a case study of Asiacell". The study indicated a relationship between internal controls and financial performance. Financial performance was measured from the perspective of return on asset. Since the problem in this study concerns consistent decrease of revenue and failure to make profit, the quality of the study was improved by using revenue and profit growth as measures of financial performance. Whereas Ahmed and Muhammed [1] focused on agency theory to understand the relationship between internal controls and financial performance, this study added control theory, stakeholder theory and systems approach to enhance the research.

Festus et al., [9] examined the impact of internal controls on financial performance in Nigerian airline industry. The findings showed that internal controls and its components have significant impact on financial performance in airline industry. The major weakness of Festus's et al., [9] study was that it solely relied on primary data elicited from questionnaire. This study closed this gap by using both primary and secondary data from audited financial statements to assess financial performance of Zambia Airports Corporation Limited.

Locally Phiri and Mbetwa [18] studied the link between internal controls and financial performance in institutions and colleges under technical, educational, vocational and entrepreneurship training management boards in Zambia. The study established a significant relationship between internal controls and financial performance. The weakness of this study was that it ignored risk assessment and information and communication in assessing internal controls. Ignoring certain components of the internal control system is one of the key weaknesses in the prior and related researches. Examples of such studies include Wilson's study which investigated the relationship between internal controls and financial performance [22]. The study established significant relationship between internal controls and financial performance. It is difficult to generalize this finding in that it

was based on control environment and risk assessment. Control activities, information and communication, and monitoring components of the internal control system were ignored. Similar weaknesses were observed in Eke Gift [7], Bett and Siagara [4], Etengu [8], Oyoo Otieno [17], and Munene [16] studies.

#### 4.2. Research Gap

The literature reviewed indicates that prior and related research have been done relating internal controls to financial performance at the global, regional, and local level, however, none of the known studies managed to investigate the internal controls in relation to financial performance for Zambia Airports Corporation Limited. Most of the literature reviewed managed to establish the relationship between internal controls and financial performance while ignoring certain critical elements of the internal controls system and relevant stakeholders. It is against this realization that this study aims to investigate the internal controls in relation to financial performance for Zambia Airports Corporation Limited by investigating internal controls system as a whole and involving all relevant stakeholders as opposed to a small team of executives/senior managers.

## 5. Theoretical Framework

#### 5.1. Agency Theory

Agency theory was formulated by Jensen and Meckling [10]. The agency relationship is said to exist when the owner of the business (principal) engages agents (executives) to run the business on his or her behalf. This is usually so because the principal does not have the time or the skills to do everything that needs to be done. This theory is useful in this study because internal controls are one of the mechanisms used in business to address the agent problem by reducing agency cost that affects overall financial performance.

#### 5.2. Systems Theory

The systems theory was initiated by Von Bertalanffy [20]. It is a science of 'wholeness.' Eke Gift [7] defines a system as a set of components that are interrelated to one another to the extent that they help in achieving set objectives. This theory is relevant to this study as it helped the researcher

investigate internal controls (subsystem) within Zambia Airports Corporation Limited and its relationship to financial performance (achievement of financial objectives).

#### 5.3. Control Theory

The genesis of management control theory can be traced to Emerson [3]. He recognized control as an important function of management. Bierstaker and Thibodeau [5] assert that the better the running of a systems operations, the less the cost and greater the benefits. This theory helped assess the effectiveness of internal controls at Zambia Airports Corporation Limited.

#### 5.4. Stakeholder Theory

This theory was formulated by Freeman. A stakeholder is a person or groups who have an interest in organizations activities or can be affected by organizations activities [19]. Broadly put key stakeholders for organizations include owners, suppliers, customers, management, regulatory authorities and members of staff [21]. The relevance of this theory to this study is that it helped the researcher to successfully investigate internal controls for Zambia airports in relation to financial performance by focusing on key stakeholders (management and members of staff) well vested with knowledge on the research topic.

## 6. Research Methodology

#### 6.1. Research Design

The research design is the blueprint for fulfilling research objectives and answering research questions [6]. This study used descriptive research design. Descriptive research design aims at obtaining complete and accurate information on the study [11]. Phiri and Mbetwa [18] assert that descriptive research design minimizes errors and biasness. The aforementioned elements were essential in successfully investigating the relationship between internal controls and financial performance at Zambia Airports.

#### 6.2. Research Design Matrix

The research design matrix is provided in Table 2.

*Table 2. Research design matrix.*

Research questions	Objectives	Population and Sampling	Data collection methods	Data analysis
How effective are internal controls at Zambia Airports?	To assess the effectiveness of internal controls at Zambia Airports	Zambia airports employees. Purposive sampling.	Questionnaires Interviews	Descriptive statistics
How is the financial performance of Zambia Airports?	To assess the financial performance of Zambia Airports	Zambia airports employees. Purposive sampling	Questionnaires, Interviews and documentary analysis	Descriptive statistics
What is the relationship between internal controls and financial performance at Zambia Airports	To establish the relationship between internal controls and financial performance at Zambia Airports	Zambia airports employees. Purposive sampling.	Questionnaires Interviews	Descriptive and inferential statistics

The study used questionnaire as main research tool and interviews as supplementary. The researcher administered questionnaires to a target sample of 105 employees representing ten percent of Zambia Airports population (1050) in line with Mugenda [15]. Out of the 105 questionnaires, 98 were received for analysis. The distribution of the 98 respondents is provided in Figure 1.

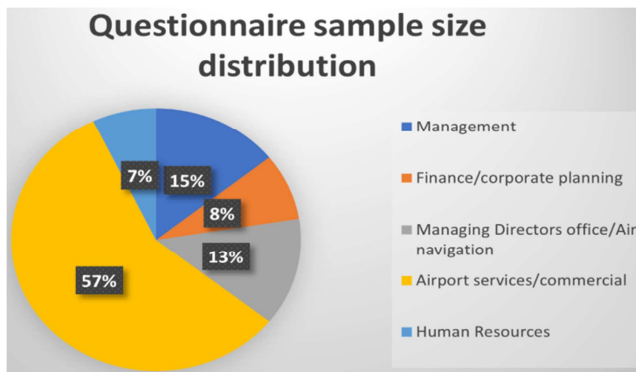


Figure 1. Questionnaire respondents' distribution.

The 98 fully answered questionnaires represented 93% response rate. According to Mugenda [15] a response rate of 70% or more is acceptable for conducting data analysis. Therefore, a response rate of 93% was considered reasonable for providing findings for the study.

## 7. Discussion of Findings

### 7.1. Discussion on Assessment of Effectiveness of Internal Controls

The first specific objective of the study was to assess the effectiveness of the internal controls at Zambia Airports Corporation Limited. The research question was how effective are internal controls at Zambia Airports Corporation Limited? The research outcome after engaging relevant stakeholders (stakeholder theory) was that internal controls as a whole using systems theory at Zambia Airports were moderately effective. This implies that it satisfied the minimum internal controls effectiveness best practices. Similar results were found by Anaenyi [2] at Lusaka City Council and Kumuthinidevi [13] at Private Banks of Trincomalee.

### 7.2. Discussion on Assessment of Financial Performance

The second specific objective of the study was to assess the financial performance of Zambia Airports Corporation Limited. The research question was how is the financial performance of Zambia Airports Corporation Limited? The research outcome after engaging relevant stakeholders was that Zambia airports did not manage to achieve its profit and revenue targets for the past three years. This implies that the financial performance of the company was poor. These results contrast with Eke Gift [7] who assessed financial performance in terms of total revenue, net profit, and return

on asset of Hospitality organizations in River State (Nigeria) and found that they performed well. Financial performance was the dependent variable in this study and was measured in terms of profit and revenue.

### 7.3. Discussion on Relationship Between Internal Controls and Financial Performance

The third specific objective of the study was to establish the relationship between internal controls (independent variables of the conceptual framework) and financial performance (dependent variable of conceptual framework) at Zambia Airports Corporation Limited. The research question was what is the relationship between internal controls and financial performance at Zambia Airports Corporation Limited? The study's outcome was that internal controls help a company achieve profit and revenue targets. This implies that the study established a positive relationship between internal controls and financial performance at Zambia Airports Corporation Limited. The outcome is comparable with Phiri and Mbetwa [18] and Eke Gift [7].

## 8. Conclusion and Recommendations

### 8.1. Conclusion of the Study

The specific objectives of the study were to; assess the effectiveness of internal controls at Zambia Airports Corporation Limited, assess the financial performance of Zambia Airports Corporation Limited, and to establish the relationship between internal controls and financial performance at Zambia Airports Corporation Limited. The study was guided by control, stakeholder, agency, and system theories. The conceptual framework consisted of independent variables (internal controls) and dependent variable (financial performance). Internal controls were assessed from the perspective of control environment, control activities, risk assessment, information and communication, and monitoring. Financial performance was assessed from the perspective of revenue and profit.

The research question for the first specific objective was, how effective are internal controls at Zambia Airports? The outcome from 98 respondents who filled the questionnaires and five Managers who were interviewed was that internal controls at Zambia Airports were moderately effective. This implies that it satisfied the minimum internal controls effectiveness best practices. Similar outcome was obtained by Anaenyi [2] who assessed internal controls at Lusaka City Council and Kumuthinidevi [13] at the private Banks of Trincomalee.

The research question for the second objective was how is the financial performance for Zambia Airports? The outcome from the 98 respondents who filled the questionnaire and five Managers who were interviewed was that the company failed to achieve its profit and revenue targets for the past three years. This implies that financial performance was poor for the last three years. These results were in contrast with Eke

Gift [7] who assessed the financial performance in terms of revenue, profit, and return on assets of Hospitality organizations in River State and found that they were performing well.

The research question for the third specific objective was, what is the relationship between internal controls and financial performance at Zambia Airports? The study's outcome from 98 respondents who filled the questionnaire and five managers who were interviewed was that Internal controls help achieve profit and revenue targets. This implies that the study established a positive relationship between internal controls and financial performance at Zambia Airports. These results are comparable to Phiri and Mbetwa [18] and Eke Gift [7].

## 8.2. Recommendations

In order to improve financial performance (dependent variable of the conceptual framework), the study recommends maintaining and strengthening of internal controls (independent variables of the conceptual framework) at Zambia Airports Corporation Limited by working on the weaknesses identified in the findings. To improve financial performance, Zambia Airports Corporation Limited management could consider responding timely to evaluated risks, ensure risk management committee works closely with internal audit committee, ensure internal audit is adequately staffed, provide regular feedback on financial performance to its employees, and conduct awareness workshop on internal controls and its importance.

## Conflicts of Interest

The authors declare no conflict of interest.

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