

The company
background,
significance of study
and definition of
terms essay sampl...

[Business](#), [Company](#)



In this chapter the researcher explores, the company background, the background of the study, statement of the problem, research questions, research objectives, limitation and delimitation of the research, significance of study and definition of terms.

1. 1 Background to the study

At independence in 1980 the Zimbabwe Oil Procurement Consortium (ZOPCO) a consortium of companies, which had taken over Genta was responsible for the procurement of petroleum products, due to the problem experienced by ZOPCO which led to high shortages in 1982, the government decided to take control of the sector considering the strategic importance of petroleum products, hence the formation of the National Oil Company of Zimbabwe (NOCZIM).

ZimOnline (3 September 2010) alleged that Noczim had been split into two companies namely, Petro trade and the National Oil Infrastructure Company (NOIC). The article published stated that the Energy and Power Development Minister Elton Mangoma said the government has split Noczim into to two companies, one to focus on trading(Petro trade) and the other on infrastructure development(NOIC). The move was meant to ensure viability and profitability of the companies.

“ As of the 1st of January 2011 there will be two successor companies to Noczim, one playing a regulatory role and the other focusing on infrastructure development,” he said.

The Minister said the move to unbundle the government-controlled Noczim followed the realization that it was not viable for the enterprise to be both a regulator and a player.

The Minister said the government was yet to decide exactly how much it would require potential investors to plow into the oil trading company formed out of Noczim.

“ The partner for the infrastructure company will be taken in on an operational basis and they will be assisting in the stock management of the company,” he said. “ For the trading one, we are looking for an equity partner though we are yet to come up with the actual figure of the kind of investment we require.” - ZimOnline

Internal control systems within companies have been questioned all over, particularly in Zimbabwe because of some spectacular and well published corporate collapses. Perpetuated by the harsh economic environment and the collapse of many businesses including the United Merchant Bank which collapsed on the 31st of July 1998, Trust Bank which collapsed on the 18th of September 2007 and ENG which also collapsed on the 23rd of September 2004, just to name a few.

It was alleged in Financial Gazette that Noczim’s financial position was worsened amid allegations of fraud and extravagant expenditure. “ Information at hand shows that as of March 6, 2008, Noczim was making on average a 23% loss on all products. Further investigations revealed that losses by the company were due to lavish spending by the management,

including the purchase of top-of-the-range luxury cars, internal loans, holiday allowances, massive travel allowances and unnecessary million-dollar developments.”

On 24 May 2010, Stanley Gama published an article in the Financial Gazette reporting that, in 2008 the directors and one board member awarded themselves holiday allowances of U\$12 000 each while middle managers were awarded between \$4000 to \$5000. The organization’s bankruptcy came to light after the Zimbabwe Revenue Authority (ZIMRA) desperately moved in, in a bid to recover the money owed to them. It was assumed that NOCZIM owed ZIMRA over US\$25 million dollars. However, the figure ballooned to about US\$135 million due to penalties for failure to pay duty on time.

The Financial Gazette’s staff writer Levi Mukarati reported on 2nd June 2011 that, “ The finance director has been failing to advise the chief executive officer on major investment decisions. The chief executive officers’ handling of expenditure decisions was such that there was little room for advice from the finance department. As a result, the ZIMRA debt ballooned to an unsustainable level. According to minutes of a Noczim board meeting held in May 2010, the fuel procurement company collected US\$85, 986, 455 from fuel companies on behalf of ZIMRA from February 2009 and remitted part of the money and retained over US\$29 million.” Staff at Noczim on unbundling constitutes staff at Petro trade and Noic.

Against the background of corporate turbulence and the loss suffered by NOCZIM, the researcher feels there is the need for this study to analyze internal operations. The standing of the finance function seems to have been greatly compromised by its failure to advise and point out the discrepancies pertaining to the manner in which the finance operations had been run down.

1. 2 Main problem

Noczim having been split into Petro trade and Nordic has inherited the issues under concern. This has prompted the research to be undertaken.

1. 3 Research objectives

- ☛ Policy position on internal controls.
- ☛ Implementation of internal controls on policy in the fuel sector.
- ☛ Reviews of internal controls in the fuel sector.
- ☛ The best practice in respect of internal controls in the fuel sector
- ☛ Employees adjustment to the newly implemented internal controls

1. 4 Main research question

An evaluation of internal controls on finance operations within the Oil sector.

1. 4. 1 Sub-research questions

The main question can be split into the following sub-questions;

- a) What is the policy position on internal controls in the fuel sector?
- b) How to implement internal controls in the fuel sector?
- c) Are the implemented internal controls reviewed?

d) What is the best practice concerning internal controls in the fuel sector?

e) Are employees able to adjust to the implemented internal controls?

1. 5 Significance of the study

This study will be important to the researcher, the University and Petro trade and Nordic, in a number of ways;

Researcher

This study will be done in partial fulfillment of the Bachelor of Commerce Accounting Honors Degree at the Midlands State University.

University

If the research findings are acceptable, the university can use the research project as literature for related topics by other scholars.

Petro trade and NOIC

In the event of the acceptability of recommendations in the research, the company will be able to implement recommendations.

1. 6 Limitations.

- Confidentiality of relevant information- some of the information requested for by the writer was highly confidential and could not be disclosed; however, this limitation will negatively affect the writer because there is assurance that the writer will hold the information with a high degree of confidence.
- Finance- funds were limited for the writer to travel extensively and to carry out adequate research on the internet at internet cafés; however, this

limitation will be mitigated by the use of wireless internet available at the university.

1. 7 Delimitation of the research

This study is based on the National Oil Infrastructure Company (NOIC) and Petro trade two locally owned companies with its head offices located in Harare. The period of the research stretches from 2009 to 2010 before Noczim operations were unbundled.

1. 8 Definition of terms

Internal control- refers to a process effected by an organization's structure, work and authority flow, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources control systems that try to verify the existence and effectiveness of internal controls within an organization.

Finance function- A discipline concerned with determining the value and making decisions. The finance function allocates resources, including the acquiring, investing, and managing of resources.

Risk- refers to the uncertainty in desired outcomes.

Fraud- is the intentional misrepresentation of information.

1. 9 Chapter summary

In this chapter, the researcher highlighted the background to the study

which was considered important as it brought out the need to carry out the study. Objectives of the study, statement of the problem, delimitation of the study, as well as limitations of the study and definition of terms were also presented. Chapter two looks at relevant literature.