Effect of Internal Control Systems on Financial Performance of State Corporations in Kenya

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Abstract: The impact of maintaining functioning internal control systems in organizations has been insistently and vastly underscored due to its positive effects on financial performance. Several state firms in Kenya are characterized by monopolistic production, highly indigenized management and appointments of a large number of top managers based on political considerations. Capacities exist for income generation through innovation and inventions in most public sector institutions in African countries. Internal controls provide practical but not total guarantee to an entity's management and board of directors that the organization's objectives will be realized. The probability of attainment is affected by limitations integral in all systems of internal control. However, realization of full potentials of these institutions may not be possible due to several failures in their internal control systems. A number of studies have been conducted to determine the impact of internal control systems on performance of the public sector in Kenya. The main goal of this study was to fill the conceptual, contextual and methodological gaps by examining the effect of internal control systems on financial performance of state corporations in Kenya. The specific objectives were to determine the effect of control environment, risk assessment, task control and monitoring and evaluation activities on the financial performance of state corporations in Kenya. Descriptive research design was adopted for this study. The target population consisted of 187 state corporations in Kenya. Using simple random sampling, 30% of the 187 state corporations, which had head offices in Nairobi were selected. Self-administered questionnaires were used to collect primary data. Statistics such as frequencies, percentages, mean scores and standard deviations were adopted. Findings are presented using tables and charts. To quantify the effect of each variable, the researcher used regression analysis. Testing the significance of the coefficients at 95% confidence level, the analysis indicate that all the variables had a significance value less than 0.05 (p<0.05) thus confirming the significance of the results. In addition, from the analysis, all the variables indicated a positive coefficient indicating a positive relationship between the dependent and independent variables. The study revealed that internal controls significantly affected financial performance of most of state corporations in Kenya. Internal control systems impacted on various aspects of performance such as development index, efficient operations, financial leverage, responding to risks, facilitates ethical values, organizational activities and objectives. The study concluded that there is a significant effect of control environment, risk assessment, task control and monitoring and evaluation on the financial performance of the state corporations in Kenya. The study recommended that state corporations should ensure that they have effective control environment and ensure that they establish relevant policies to ensure that their internal control environment is effective to enhance financial performance. The management of the state corporations should put in place relevant measures to determine the level of risk carefully. The management of state corporations and other public institutions should develop task control mechanisms to attract relevant feedback from the various stakeholders into their internal control system. The state corporations should develop a monitoring and evaluation system that determines compliance with internal controls and reports instances of noncompliance to the relevant authorities.

Introduction

1.1 Background of Study

Tunji (2013) explained that internal controls include an organization's implemented rules, policies and measures that deliver practical assurance that: an organization's financial reports are dependable, its operations are effective and proficient and that all its activities conform to valid laws and regulations. According to the

Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) framework, internal control is a procedure, affected by a firm's board of directors, management and other staffs and is envisioned to provide reasonable assurance of accomplishment of goals in the following categories: 1). Efficacy of operations, 2). dependability of financial reporting, 3). conformity with appropriate laws and regulations. The COSO (2013) framework recognizes five main fundamentals of internal control systems upon which the evaluation should take place. The framework consists of control environment, risk valuation, control undertakings, information & communication and monitoring. There is a common expectation that establishment and implementation of accurate internal control systems will always lead to enhanced financial performance (Hayali, Dinç, Sarıl, Dizman& Gündoğdu, 2011).

The COSO (2013) framework also indicated that correctly established systems of internal control enhance the reporting procedure and give rise to dependable reports that improve accountability function of management of a firm. Internal controls established to safeguard all companies' resources against exploitation or misuse and to identify and protect company's assets from likely frauds. According to Frazer (2012), internal controls are practices established and implemented by people in charge of administration, management, and other personnel to deliver practical guarantee about the success of an entity's objectives with respect to dependability of the financial reporting, efficiency of processes and conformity with relevant laws and regulations (Mwindi, 2008). Accordingly, internal control systems refer to a set of security measures, which contribute to the control of an organization. Internal controls ensure the security, and safeguard assets and the quality of information (Eko & Hariyanto, 2011). It assumes a significant role in detecting and preventing fraud and protecting organization's assets, both physical (e.g. machinery and property) and non-material (e.g. reputation or intellectual property such as trademarks).

The internal control systems comprise of five interconnected constituents namely control environment, threat valuation, control undertakings, information and communication, and monitoring (Yang, 2012). According to John (2011) stakeholders and entitled persons in organizations and companies are the consumers of financial information and have a tendency to know policies, procedures and arrangements that managers have adopted in order to protect assets of the organization against abuse, theft, and tomake data reliable, and also to urge the staff to follow the requirements and regulations. Organizations have reliably been looked vulnerable in achieving their strategic, operational and other goals (John, 2011).

1.1.1 Global Perspective of Internal Control Systems

In global context, internal management is required to learn and understand how the internal control systems work. In the last two decades, several financial indignities have been witnessed in a number of selected companies both in the local and international scene (Aziz, 2013). For instance, in America, according to Mohammed and Nermeen (2015), $180 billion stakeholders' money was lost in World Com Scandal of 2002, $150 million in Tyco Scandal of 2002, $1.4 billion in Heath South Scandal of 2003 (the biggest publicly traded company) and $3.9 billion in America international Group (AIG) scandal of 2005, amid numerous financial fraudulent undertakings affecting publicly quoted companies. Ashbaugh-Skaife, Collins, Kinney and Lafond (2008) acknowledged that corporations reporting internal control flaws have more multifaceted operations; have organizational structures that have been recently modified; are at a higher exposure to accounting risks; and have scarcer resources to devote to internal control. Furthermore, Wardiwiyono (2012) indicated that inferior earnings values are more linked to entities with physical defects than those without report physical flaws.

Local government financial performance has been significantly influenced by Auditors' work. Mohammed and Nermeen (2015) conducted a study on the effect of internal control and risk management on banks in Palestine. The used qualitative close-ended survey to collect data from managers of 10 banks in Palestine. Five categories of question were administered to 22 respondents. From the findings, it was discovered that in Palestine, sound internal control and risk management systems have a positive effect on the banks in relation to quantitative and qualitative performance.

Sanusi, Johari, Saida and Iskandara (2015) conducted a study to assess the impact of internal control system, financial management and accountability of NPOs on the perception of mosques in Malaysia. The study looked at efficiency of internal control system, financial management and accountability practices in mosques in Malaysia. Based on 500 questionnaires administered to chairman and treasurer of 250 selected mosques available in Malaysia including Sabah and Sarawak. From the findings of the study it was established that there are positive relationships between budget participation, internal control, fund usage and accountability on financial management practices. Shabri, Saad and Bakar (2016) examined the effect of internal control systems

on profitability of Koperasi ABC Berhad Cooperative Society and established that cooperative implemented all the component of internal control systems that are known to help organizations achieving business objectives and record good organizational performance. Effective internal control systems have the ability to increase the profitability of cooperatives, which will directly help to promote the stability and growth of the cooperative.

In Europe, Akwaa-Sekyi and Moreno (2017) investigated the internal controls and credit risk relationship among European banks. Board data from 91 banks from 23 European Union countries were considered from 2008-2014. Hausman's specification test proposes the usage of fixed effects approximation technique of GLS. Quantitatively modelled data on 15 variables covering fundamentals of internal controls, objectives of internal controls, agency problem, bank and country specific variables were used. The study found that there subsists a great credit risk irrespective of measures being effected by the European Central Bank. Banks have distinct entity features that increase or decrease credit risk. The study established that operative internal control systems because objectives of internal controls are realized and expressively regulate credit risk. Agency strain is established due to substantial positive relation with credit risk. There is significant impact of internal controls on credit risk with particular variables as risk valuation, return on average risk quantified assets, institutional proprietorship, bank size, inflation, interest rate and GDP.

1.1.2 Regional Perspective of Internal Control Systems

In the African region, there exist numerous perspectives on internal control systems. South Africa's Randgold and Exploration companies documented reports of accounting scandals (Hayes, Dassen, Schilder & Wallage, 2009). Nigeria's Cadbury company managing director and chief financial officer were fired in 2006 for inflating the profits of the company for some years before the company's foreign partner attained controlling interest. The the necessity to weigh, examine, and articulate systems of checks and balances to guide corporate directors in decision-making is underscored by these scandals. These directors are legitimately and ethically gratified to yield honest, reliable, accurate and enlightening corporate financial reports periodically (Hayes *et al.,* 2009).

A study carried out in Nigeria by Owizy (2008) titled, "Assessment of Effectiveness of Internal Control in Government Ministries: A Case study of Benue State Ministry of Finance," established that Benue State ministry of finance prepare annual budgets promptly and also has adequate expenditure tracking system to prevent financial recklessness. Muraleetharan (2011) conducted a study to examine the effects of internal control on financial performance. The study established that there is a very significant relationship between internal control and financial performance and provided a correlation ($R^2 = 0.818$). Mawanda (2008) also conducted a study in which he sought to find out the impact of internal control systems on financial performance in institution of higher learning in Uganda. The study findings revealed that there is a significant impact of internal control systems on financial performance.

Eko and Hariyanto (2011) established that internal control system, internal audit and organization commitment have positive important relationship with good governance among contacted thirty-five (35) districts in Central Java province of Indonesia. In a comparable study carried out by Nilniyom and Chanthinok (2011) on accounting system innovation and stakeholder approval of Thai listed firms, it was discovered that internal control effectiveness has a positive correlation with stakeholder acceptance. According to a study by Ochoge (2011) on internal controls and organizational performance: a case of Medipont industries limited, acknowledged that the internal controls used in Medipoint Industries Limited were ineffective and insufficient, the level of organizational performance was found to be insufficient and a substantial positive relationship between internal controls and organizational performance was recognized to be present.

In another study by Ewa and Udoayang (2012), they maintained that staff fraud is prevented by a robust internal control mechanism while a frail internal control mechanism exposes the system to fraud and forms an opening for staff to commit fraud. In Ghana, Inusah and Abdulai (2015) established that the internal control systems that exist at Lands Commission are inadequate and there is even lack of supervision for those existing. The study further revealed that, the Commission had no well-designed, formal control systems to guide its operations. According to Ayom (2013) in a study on the internal controls and performance in Non-Governmental Organizations in Sudan, he established that, internal auditing has led to compliance with rules and regulations on operations, performance and procurement control. However, it did not lead to proper financial accountability, budgetary control on the expenditure and proper utilization of donor funding.

Sahabi, Diibuzie and Abubakari (2017) investigated the impact of internal control techniques on financial performance of health institutions in Upper West Region of Ghana. The authors maintained that due to

its positive impact on financial performance, the importance of perpetuating operative internal control system in organizations have been insistently and massively underscored. Efficient internal control enables the deterrence and exposure of fraudulent activities in the institution. Similarly, in the Upper West Region of Ghana, tireless determinations by policy makers to track policies that would advance internal control system in the ministry of health have produced in depth results with regards to financial performance in health institutions. The study sought to investigate the effect of internal control variables on financial performance among five health institutions in the region using an ordered logistic regression model for a sample of fifty (50) respondents. The study revealed a positive relationship between internal controls and financial performance. But only three of the control variables remained significant with p-values less than 5%.

1.1.3 Internal Control Systems in the Kenyan Environment

Internal control systems have also drawn considerable attention in the Kenyan context. According to Wainaina (2011), In a study on Internal control function of The Kenya Polytechnic University College, the study shows that as a substitute of its appearance on the scene of operations, management must rely on internal control techniques to implement its decisions and to regulate its activities for which it is ultimately responsible for. The use of effective internal control systems (ICS) is therefore deemed crucial in the management of business resources. According to a study by Nyakundi, Nyamita and Tinega (2014) on the impact of internal control systems on financial performance of small and medium scale business enterprises in Kisumu City, the study revealed that, there has been disagreement as to why there is a decreasing business survival trend among Small and Medium scale Enterprises regardless of government's assurance to accessibility of funds. Economic Survey 2009 statistics show a remarkable growth of Small and Medium scale Enterprises in Kenya over the last ten years; constituting about 96 per cent of all business enterprises in the country; yet 90% of the business start-ups do not function past their third anniversary. Using a descriptive method, the sample was selected from the study population through stratified and simple random sampling techniques. The study established that a substantial transformation in financial performance is related to internal controls systems.

A study by Hassan (2014), explored the challenges effecting internal control systems in Non-Governmental Organizations (NGO) in Kenya. The study used Faith-Based Organizations (FBO) in Coast Region as a case study site. From a desk search method, the study recognized that FBOs in coast region commonly relies on traditional and informal control structures to meet their welfare agendas. Formal internal control systems as practiced in the corporate world have not fully been applied in the FBOs control systems. However, management controls that incorporate internal controls and traditional welfare goals are thought as a suitable beginning point in the move regarding running in a more modest NGO sector and FBOs are not an exception.

Ndembu (2015) in a study of the influence of internal controls on the financial performance of manufacturing firms in Kenya carried out descriptive statistics and inferential analysis of the data using measures of central tendency and Pearson correlation analysis. The study employed secondary data gathered from the manufacturing firm's annual reports for the period 2013 to 2014. The study revealed a relationship with control environment, risk valuation, information and communication and control activities showing a positive relationship with the return on asset while monitoring showed a negative relationship with return on asset. The study determined that control environment, risk assessment, information & communication, and control activities have a significant relationship with the return on asset of manufacturing firms in Kenya.

In Menengaai company, a study conducted by Bett and Memba (2017) on the impact of internal control on the financial performance. The study adopted a case study design. A census was conducted and the data gathered was tabulated then analyzed by use of descriptive statistics and inferential statistics. as part of its control measures to improve its financial performance, the study established that the company has set forth a good working relationship between the staff, they are committed to their jobs, all employees have work schedules hence no job conflicts and that there is a mechanism to monitor regular attendance of staff. The company has operative reporting of revenue objectives to be achieved in a particular financial year, information flows freely in the company without any interference, the reporting system on company clarifies all the duties of each section/unit in the organization, communication helps us to evaluate how well guidelines and policies of the firm are working and being implemented and that all operational information is given to staff in time.

The public sector consists of government ministries, departments and agencies that carry out activities on behalf of the Kenyan government for the benefit of the public. The public sector organizations are established to correct market failures (GoK, 2013). This is where the service they give cannot be profitably

provided by private investors. In some other instances public sector organizations meet explicit social, political and regulatory objectives (Onyango, 2014). state corporation are formulated by the government of Kenya to run both commercial and social goals. They are present for several reasons which entail: to correct market loss, to exploit social and political objectives, provide education, health, reallocate income or develop marginal areas. State Corporations have been categorized as monopolistic production, highly indigenized management and selections of a large number of top managers based on political deliberations (Public Service Commission, 2016).

After independence in 1963 the Kenyan Government found out that owing to shortage of private domestic savings and inadequate or total lack of entrepreneurial training, experience and management skills, the task of national development for rapid rate of economic growth could not be entrusted to the exigencies of market forces alone (RoK, 2016). In 2010, Kenya saw the promulgation of the new constitution which came with several reforms including accountability and transparency in state and public institutions while vesting more powers to the citizens. According to Public Service Commission (2016), the Kenya government that came into power in March 2013 took over the institution of the reforms. State corporations in Kenya have continued to play diverse roles with mixed results. In driving towards the goals set under Vision 2030, state corporations are expected to play five key roles as; promoting and or accelerate economic growth, supporting efforts aimed at building institutional capability and technical capacity, improving delivery of public services, supporting the formation of good and extensive employment prospects and supporting targeted and purposeful building of regional and international partnerships. Poor performance by state corporations have been associated with labor rigidities, increased fiscal and foreign debt and inflation problems (Onyango, 2014). State corporations were noted to provide poor and unreliable services and failed to meet citizen's demands. This study consequently sought to examine the effects of internal control system on the performance of state corporations in Kenya.

1.2 Statement of the Problem

Upholding effective internal control systems in organizations has been insistently and vastly emphasized, owing to its potential effect on financial performance (Crawford, 2011). The internal controls are applied to ensure that there are conducted procedures in the institutions. According to Posthuma (2013) internal control systems have been so significant to public organization especially in the aspect of assurance of the reliability and accuracy of the financial reports. Similarly, according to Verdina (2011) internal control systems are used by public organizations as a basis for establishing a solid control framework for these entities, and by the controllers of the public sector as a means for assessing the internal control system. Despite the importance of internal control systems, it is not very clear on how they affect financial performance of state corporations. According to Muraleetharan, 2013, in a study on control activities and performance of organizations, a positive relationship between control activities and performance was recognized. In another study conducted in Nigeria by Ejoh and Ejom (2014), to establish the relationship between internal control systems and financial performance in tertiary institutions, it revealed no substantial relationship between internal control activities and financial performance. Njui (2012) examined the efficiency of internal control and audit in upholding good governance in the public sector in Kenya and determined that internal control has the highest effect on corporate governance inside Kenya government ministries followed by risk management while compliance and consulting had the least effect. Makori, Nyagol and Odongo (2016) examined the influence of internal control systems on fraud risk management among commercial banks in Kisii Town, Kenya and established that ICS influence 67.7% of fraud risk management; control environment positively and significantly influences fraud risk management ($\beta = 0.391$; $p < 0.05$) and risk assessment positively and significantly influences fraud risk management ($\beta = 0.401$; $p < 0.05$).

Monopolistic production, highly indigenized management and appointments of a large number of top managers based on political considerations have been the characteristics of a majority state corporations in Kenya (Ngari, 2017). Regardless of the government reforms in Kenya financial scandal, these characteristics have caused many of the state corporations in Kenya to struggle to redeem their bases and collapses of this state entities have continued unabated (Onyango, 2014). According to the R.O.K (2016) out of 130 reports inspected by the auditor general on corporations only 23 achieved a clean bill of health and hence the concern. The effect of this is little economic growth, insecurity, lack of investments and poor service delivery leading to underdevelopment (R.O.K, 2016). From the foregoing, studies have been carried out to determine the impact of internal control systems on financial performance of state corporations in Kenya but due to various aspects of internal control and financial performance a research gap still exists. This study therefore was a modest attempt

to fill the existing gap by conducting a study on the effect of internal control systems on financial performance of state corporations in Kenya.

1.3 Research Objectives
1.3.1 General Objective
The general objective of this study was to determine the effect of internal control systems on financial performance of state corporations in Kenya.

1.3.2 Specific Objectives
The specific objectives were:
   i. To determine the effect of control environment on the financial performance of state corporations in Kenya.
   ii. To assess the influence of risk assessment on the financial performance of state corporations in Kenya.
   iii. To examine the effect of task control on the financial performance of state corporations in Kenya
   iv. To assess influence of monitoring and evaluation on the financial performance of state corporations in Kenya.

1.4 Research Questions
The study was guided by the following research questions:
   i. How does control environment affect the financial performance of state corporations of Kenya?
   ii. How does risk control affect the financial performance of state corporations in Kenya?
   iii. How does task control affect the financial performance of state corporations in Kenya?
   iv. How does monitoring and evaluation affect the financial performance of state corporations in Kenya?

1.5 Significance of the Study
There is need to prevent or at least minimize the loss of government funds through misappropriation and others malpractices. In order to successfully achieve this, there is need for proper accountability in the state institutions and the establishment of sound systems of internal control cannot be under stated. This study therefore is important as it brought out the importance of internal control systems, which state corporations should employ in order to curb financial reporting challenges. Similar Government Agencies would benefit from the study too as the report would act as a benchmark for their financial management control.

Apart from establishing the influence of internal control systems on performance, the findings of this study would determine the need for careful and implementation and the key success factors that can form a basis of improvement in future strategic plan development. In addition, other government agencies would use the report to streamline their new devolved departments in internal controls. This would assist them to become responsible and to seal all financial leakages that come as a result of poor internal control systems.

This study would have academic importance because of the new insights it would contribute to the universe of knowledge in the emerging discourse on the importance of internal control systems and financial performance of state corporations in developing countries. It would make specific contribution to the domain of knowledge in the field of internal control systems and financial performance of state corporations. The study too sought to contribute to knowledge generation in terms of internal control systems and performance of state corporations.

1.6 Scope of the Study
The objective of this study was to investigate the effect of internal control systems on financial performance of state corporations in Kenya. The study was conducted among parastatals in Kenya and focused on selected parastatals with headquarters in Nairobi Kenya (R.O.K, 2016). The target personnel were the accountants of the respective parastatals with collection and analysis of data done between July and August 2018. Within the subject of internal control systems and financial performance of state corporations in Kenya, the study investigated the various aspects of internal control systems affecting the financial performance of parastatals in Kenya. As such the study sought to explore the impact of control environment, risk control, task control and monitoring and evaluation on financial performance of state corporations in Kenya. The adequacy of internal control in enhancing performance of public sector institutions is very important since the main task of internal control is to detect and prevent fraud. State corporations were selected for study because they engage in

delivery of wide variety of services and products to the citizens and hence they would provide a representative sample for generalization.

Literature Review

2.1 Introduction

This chapter deals with facts and discoveries of other scholars. The researcher reviewed literature of past studies which examined the effect of internal control system on financial performance of state corporations. The specific areas covered here included theoretical framework, conceptual framework, control environment, risk assessment, task control and monitoring & evaluation. The other sections reviewed were empirical literature review, critique of the existing literature, research gaps and summary of the literature.

2.2 Theoretical Review

According to Torraco (2010), theory is a way of making sense of a disturbing situation; it is a generalization about a phenomenon, an explanation of how or why something occurs. Theories represent tentative solutions to problems. A noble research should be based on theory. This study was based on certain theories that have links with the impact of internal control system on financial performance of state corporations. Hence this study was established on institutional theory, agency theory, reliability theory and systems theory.

2.2.1 Systems Theory

The systems theory was propounded in the 1940s by a biologist Ludwig von Bertalanffy and advanced by Ross Ashby in his study "Introduction to Cybernetics" in 1956 (Keraro, 2014). Bertalanffy (1968) emphasized that real systems were open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. He argued that rather than reducing an entity or organization to the properties of its parts or elements, systems theory focused on the arrangement of and the inter-relations between the parts which connect them into a whole. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research and development). Thus, the same concepts and principles of organization underlie the different disciplines, providing a basis for their unification.

Hartman (2010) observed that the systems theory provides a leader with a tool for analyzing organizational dynamics without providing a specific theory about how an organization should be managed. He also observed that with the recognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and sub-systems helpful in providing a functional overview of any organization. Smit and Cronje (2002) observed that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well. The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the work place (Keraro, 2014).

They recognize the various parts of the organization, and, in particular, the interrelations of the parts, for example, the coordination of central administration with its programs, supervisors and workers, among other variables (Smit & Cronje, 2002).

In traditional management practices, managers typically took one part and focused on it (Hartman, 2010). The problem was that an organization could, for example, have a wonderful central administration and wonderful set of teachers, but the departments didn't synchronize at all (Rue & Byars, 2004). In using the systems theory approach, the study will recognize that there are many possible roles of governance in the strategic management of companies. Bertalanffy (1968) saw organizations as a composition of its elements which together make a "whole". The key identifiable organization variables, based on this theory will be the people, leadership, structures, processes, resources (human, financial and others), communication systems, position and power. All these are viewed by the systems theory as the parts that, if coordinated strategically, will lead to an effective organization.

The systems theory upholds the idea that the different parts of an institution should not be managed in isolation. Relating the foregoing discussion of the study undertaken, the systems theory thinking will help the researcher to visualize the fact that what may seem as an isolated internal problem is actually part of an interconnected network of related issues in internal control systems of quoted companies. This theory therefore supports control environments of internal control systems in the public sector.

2.2.2 Reliability Theory

Reliability theory offered by Gavrilov & Gavrilova (2001) mainly defines the likelihood of a system effecting its anticipated purpose during a period of time. It was initially an instrument used to aid the nineteenth century maritime insurance and life insurance companies in calculating lucrative rates to bill their customers (Gavrilov & Gavrilova, 2001). In accordance to the reliability theory, an internal control system contains of elements that are interconnected and for each element, there requires to be a distinct degree of success. Therefore, the quality of an element is contingent on whether the element is successful or not successful. The dependability of an element is described as the possibility of the element being established in the 'success' state. Moreover, the dependability of the whole internal control system is a dual amalgamation with two possible values, success and failure. This study considered the part of the reliability theory which communicates the internal control system element reliabilities.

The controllability of reliability theory to the assessment and purpose of internal control systems are present in the professional literature but no practices have been stated that outline upon the much power of the theory of level of reliability (Kinney, 2000). The two possible potential users of the reliability theory are the external auditor and organization business managers. Kinney (2000) states that; throughout the external audit, proof is acquired to support an expert opinion. internal control systems have a key resolve of valuation and control of threats; that an important error was not deterred or taken to be on a timely base by the system leaving losses. Insubstantial, internal control systems end up in more fundamental work and for this reason higher price. in harmony with to Gavrilov and Gavrilova (2001), the discovery of the "feebleness" of any internal control system is predominantly opinion-giving. upon the invention of the process and system reliability estimates, comparison with facts from the organizations past performances or other firms may offer a firmer starting point for Judgment of the effect of an internal control system on the firm's income risk and therefore make ready for a more coherent allocation of the auditor's time and effort.

Messier and Austen (2000) state that one of the principal advantages of reliability theory is its close relationship to the auditor's needs concerning understanding the internal control system and control risk valuation. According to Stratton (2007), the value of management objective practices for the assessment of internal control systems have been enlarged by management recent expansions have enlarged the value to management. Consequently, firm managers are required to guarantee the precision of these systems. Stratton (2007) also enhances that the process of assessment of the internal control system by both management and external auditors is judgmental in nature. However, the limited efforts at forming internal control systems have not been effected by firms due to the lack of practicality, difficulty of forming behavioral systems, lack of cost effectiveness, and lack of understanding by practitioners.

2.2.3 Agency Theory

The Agency theory by Jensen and Meckling (1976) specifies that the leaders and the agents use contracting to capitalize on their wealth. However, the agents might encounter a dilemma of acting contrary to the concern of their leaders in an effort to capitalize on their own wealth. Agency theory was originally developed by Jensen and Meckling (1976). As per this theory, the firm is viewed as a nexus of agreements between various partners of the association (Jensen and Meckling, 1976). In this manner, the proprietors and officials of an association may contrast in assessment regarding the best advantages of the association. Accordingly, officials might be viewed as utilizing firms to get as much as they can at the cost of the proprietors. Agency theory explains the utilization of controls as being fundamentally grounded on cost benefit analysis, where controls are set up with a specific end goal to decrease data inconsistencies among principals and proprietors.

Besides, the theory has been utilized to illuminate requests for observing controls for instance; the financial statement review, external directors and committees, audit advisory groups, internal audit and pay plans (Arwinge, 2013). Subsequently, internal controls, financial reporting, budgeting, audit groups, and external audit reviews are a portion of the numerous components utilized in business to address organization issues (Jensen and Payne, 2003). Agency theory is more useful in identifying conditions and outlining controls to Policymakers and control experts. Internal control ought to be utilized as a security net to address this agency issue (Jensen and Payne, 2003).

Studies have demonstrated that internal controls diminish organization costs (Abedel-Khalik, 1993) and this affects the financial performance of a business positively. however, they have not been given the

significance they deserve other than as an administrative and social responsibility necessity. Operational internal controls may address the organizational issue and diminish organizational costs through disposal of data inconsistency that may happen between the principal and the agent. Internal control advances the foundation of surplus data to the essential (investor) with respect to the conduct of the agent (administration) diminishes data inconsistency and takes down investor risk and low income. This theory, hence, was vital in building up the impact of information and communication on financial performance of state corporations.

2.2.4 Institutional Theory

The institutional theory coins from the work done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). The theory positions that organizations actualize systems and administration procedures that are seen as legal by other organizations in the equivalent business (Etengu and Nasieku, 2015). In this way, organizational practices are either an immediate replication of, or reaction to, standards and structures developed into their bigger surroundings. It started from works done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). This theory recommends that associations create and configure structures, procedures and frameworks not predominantly on rational financial cost benefit analysis but rather on the grounds that they are pretty much required to consolidate new practices and techniques. As indicated by Meyer and Rowan (1977), organizations are steered to join the practices and systems characterized by prevalent justified ideas of organizational work and established in the public eye.

Arwinge (2013) records that to some extent institutional theory is concerned that management is not just intrigued with money saving advantage concerns and risk compensation trade-offs, however, it looks to administration crazes, industry estimates and firm customs when endorsing and planning new control reviews. Conversely with agency theory, institutional theory gives an alternate clarification concerning why controls exist in an Organization by expressing that controls are adopted and proposed to achieve authenticity, as representative demonstrations and simulations or as practices from the outside environment (Arwinge, 2013). From institutional perspectives, controls are set up to pick up authenticity and different less balanced elements. The establishment of certain administration measures and controls, for example, chance valuations, repayment panels, and approaches, in addition to other things, may subsequently be made incompletely so as to pick up authenticity. These controls display significance about specific issues and are acknowledged mainly because of industry guidelines, simulations of different firms, firm tradition and management (Arwinge, 2013).

Associations that establish certain administrative measures and controls heighten their authenticity and their survival prospects, free of the quick effectiveness of the achieved practices and strategies. Organizational structures, for example, internal controls are images of compliance and social responsibility. From the records available, firms contest for customers and assets as well as for institutional authenticity and social wellness (DiMaggio and Powell, 1983). As indicated by Arwinge (2013), controls are accustomed and outlined keeping in mind the end goal to expand legitimacy and their survival prospects. This theory hence is in spatial relation with the corporate governance and SOX requirements. The Sarbanes-Oxley Act of 2002 obliges organizations to account on the adequacy of their Internal Controls over Financial Reporting as a major aspect of a general determination to lessen fraud and reestablish integrity in the financial reporting process.

2.3 Conceptual Framework

Conceptual framework has been defined by Mugenda and Mugenda (2012) as a hypothesized model identifying the concepts under the study and their relationships. The purpose of conceptual frame work is to help the readers quickly see the proposed relationship between the variables in the study. In this study, the independent variables were control environment, risk assessment, task control and monitoring &evaluation. The dependent variable is financial performance of state corporations. These aspects form the undernoted diagram.
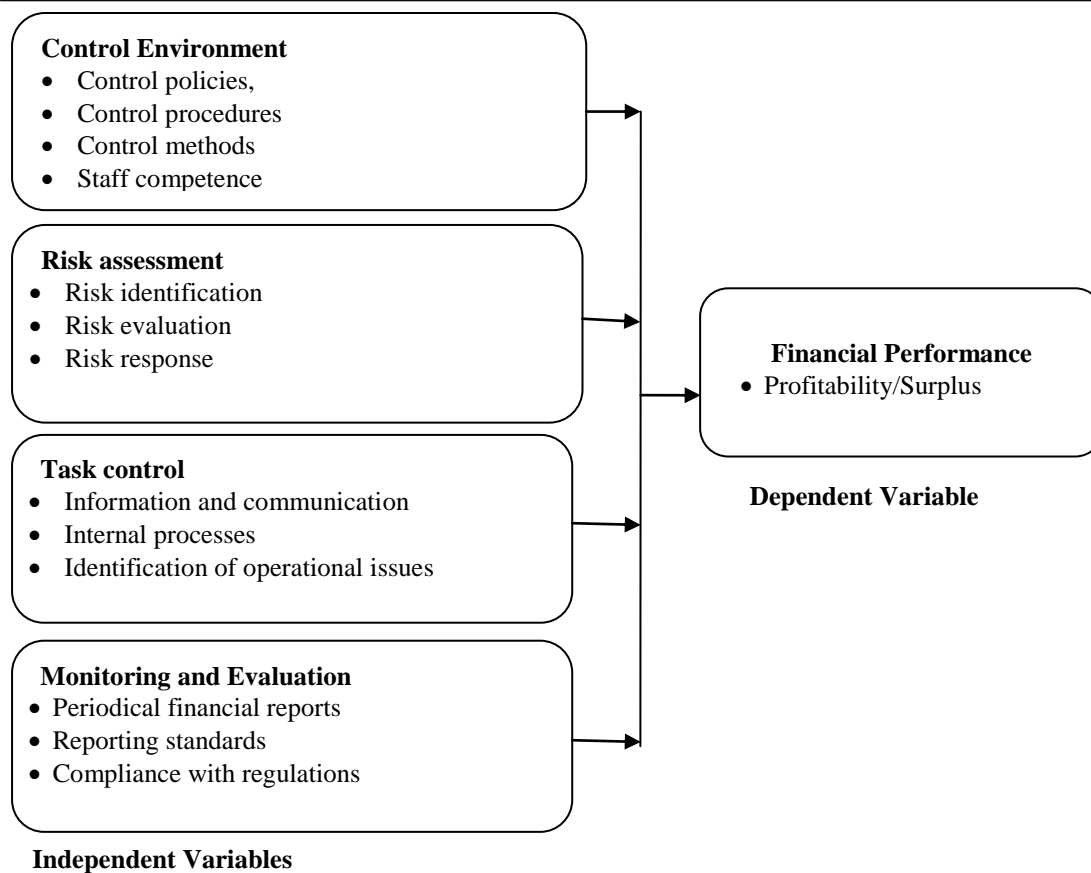
Figure 2.1: Conceptual Framework

2.3.1 Control Environment

Control environment are all of the policies and procedures that have been instituted by the company to direct the staff in carrying out the directives of both board and management. Beneish, Billings and Hodder (2008), define the control environment as the tone of an organization and the way it operates. He further says that it concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively. Likewise, COSO (2004) looks at the ethical environment of an organization to encompass aspects of upper management's tone in achieving organizational objectives, their value judgments and management styles. The control environment represents the control atmosphere for the entity and is the foundation for the other components (Shabri, Saad & Bakar, 2016).

2.3.2 Risk Assessment Process

This is the distinguishing and analysis of significant risks to the realization of objectives, establishing a base for how the risks should be managed. According to Lannoye (2009) this element of internal control highlights the significance of management carefully pinpointing and assessing factors that can impede it from attaining its mission. Because economic, industry, regulatory and operational settings will continue to change, mechanisms are required to detect and deal with the distinct risks connected to change. Risk assessment is the identification and analysis of pertinent risks connected with the attainment of the management objectives (Theofanis, Drogalas & Giovanis, 2011).

2.3.3 Task control

According to Sahabi and Abubakari (2017), information and communication denotes the practice of pinpointing, capturing, and communicating of significant information in a suitable way and within timeframe in order to achieve the financial reporting objectives. However, actual communications ought to happen in a

broader sense using information within the different sections of the organization (Theofanis, 2011). Most of the current literature on internal control system frameworks gave concern on information and communication as one of the internal control system mechanisms, because of their significance in persuading the operational relationship within the organization at all ranks (Ayom, 2013). Therefore, such information needs to be communicated in the entire organization in order to allow personnel carry out their duties professionally and efficiently with regard to objective attainment.

2.3.4 Monitoring and Evaluation

Monitoring denotes the practice of measuring the quality of the internal control structure over time. According to Inusah and Abdulai (2015) internal controls are processes, it is usually acknowledged that they need to be sufficiently supervised in order to evaluate the quality and the efficacy of the system's performance over time. By monitoring, the organization gets guarantee that the findings of audits and other evaluations are promptly determined (Theofanis, 2011). Ayom (2013) add that monitoring of operations guarantees actual functioning of internal controls system. It's via monitoring that an organization decides whether or not its policies and procedures designed and implemented by management are being carried out efficiently by employees.

2.3.5 Financial Performance

According to Kiptui (2009), performance in an organization may take many forms depending on whom and what the measurement is for. Different stakeholders require different performance indicators to enable them to make informed decisions. Performance is a set of financial and non-financial indicators which offer information on the degree of achievement of objectives. A firm's performance can be measured using either financial or non-financial measures. Most organizations target increased profits, liquidity and solvency as a measure of sound financial health of an organization. Many organizations also measure organizational performance using the balanced scorecard approach where performance is tracked and measured in multiple dimensions such as internal business processes, financial performance, leverage, growth and customer service.

Firm performance is imperative in the determination of how organizations implement strategic change.Organizational performance includes multiple activities that help in establishing the goals and monitors progress towards the target and it also relates to how well an organization achieves its market-oriented goals as well as its financial goals (Wilcox & Jenkins, 2015). Armstrong and Baron (2015) termed firm performance as tactical and cohesive method that intensifies the effectiveness and competences of teams and individual contributors. They further explained that operative conveyance of tactical and operative objectives can be heightened by monitoring and supporting employee performance to objectives thence refining firm`s competitiveness.

Awino (2011) emphasizes that for an organization to be effective it has to demonstrate high returns and recognize performance drivers from the top to the bottom of the organization. Unswerving financial achievements that could be connected to an organizations performance consist of; sales growth reduced organization costs and reduced project overruns among others. Benefits of performance for an organization can be towed and enriched through use of technology innovations particularly e-procurement. According to Fiedler (2015) performance is a field involving the financial measures and non-financial rudiments such as fulfilment of employees and social accomplishments. This study looked at both the financial aspect of cost reduction as well as the non-financial aspects of performance.

2.4 Empirical Literature Review

The most renowned essential component in most organizations, essential for the existence of the business enterprise and government agencies is internal control system (Sanusia, 2015; Shabri, 2016). Past studies have indicated that internal controls results in financial performance measured in terms of generally accepted financial measures for example, sales, net income, return on sales (Mohammed & Nermeen, 2015; Akwaa-Sekyi & Moreno, 2017; Bett & Memba, 2017). The task intricacy of internal control system structure and organizational structure is determined on the dimension of centralization and decentralization are related to each other. Cheng Xiaoling, Wang Huaiming (2008) carried out a study on the affiliation between corporate performance and internal control effectiveness, and they found shareholders' meeting attendance rate in the end of a year was significant positive with the effectiveness of internal control. The higher the year-end shareholders' meeting attendance rate, the more favorable for the growth of the company.

A study conducted by Palfi and Muresan (2009) examined the significance of a well-organized system of internal control in regard with the bank sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers revealed that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department. A study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study revealed that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks.

Douglas (2011) sought to assess the extent of failures caused by humans to internal control system and efficiency of internal control system in risk management in bank. The study measured the control environment, risk valuation, information and communication system, control activities and monitoring to evaluate the internal control effectiveness in the bank. The population was banks in the Ashanti Region. The research used Eco bank Ghana Limited Ashanti Region as the case study. The study found that there is internal control system in Eco bank in Ghana but there monitoring is less effective.

Ofori (2011) conducted a study to investigate the efficiency of the internal control systems in Ghana Post Company. It is case study type research. Staff of the Ghana Post Company was the population. He also considered control environment, risk valuation, information and communication system, control activities and monitoring considered as internal control components. Finally, it is concluded that all five components in internal control system are not very strong but rather satisfactory. Further, revealed that there was no internal audit unit to monitor the activities independently.

Salehi and Shiri (2013) did a study to investigate the usefulness of internal control in Iranian banking sector. The findings established that the internal control is highly efficient in banking sector to prevent and detect incidents of frauds and errors. A study showed by Simiyu (2011) on usefulness of internal control system in middle institutions of learning in Kenya clearly indicate that Technical Training Institutions face quiet a number of challenges during internal controls in performance like tussles with liquidity problems, untimely financial reports, wanting accountability for the financial resources, frauds and misappropriation of institutional resources. However, the study did not focus on effects of internal controls on performance of Technical Training Institutions in Kenya.

Olumbe (2012) carried out a study to examine the relationship between internal controls and corporate governance in commercial banks in Kenya. The researcher carried out a survey of all the 45 commercial banks in Kenya. It was determined that majority of the banks had incorporated the several considerations which are used for evaluating internal controls and corporate governance. This was specified by the means which were gotten by probing on the same and this indicated that the respondents agreed that their banks had established good corporate governance with a robust system of internal controls and that there is a relationship between internal control and corporate governance.

2.4.1 Control Environment and Financial Performance

Bates (2011) deliberates the factors linking to the control environment to consist of; the veracity, moral values, and proficiency of employees and management, management's beliefs and operational style, the method in which authority and duty are distributed, the organization and growth of employees, and the devotion and trend of the board of directors towards organizational success. The control environment starts with the board of directors and management, who regulate the attitude of an organization via policies, behaviors and actual governance (Theofanis, 2011). If the attitude set by management is lax, then fraudulent financial reporting and performance is more likely to occur. Control environment is the key feature of managing an organization. This is because it is a deliberation of the attitude and the policies of management in respect with the significance of internal audit in the economic unit. It has power over organization goals achievement. However, it is the basis for the other mechanisms of internal control and providing structure (Sudsomboon & Ussahawanitchakit, 2009).

Control environment contributes toward decreasing the level fraudulent activities within organizational operation also the value of an entity's internal controls system is contingent on the purpose and value of their control environment (Amudo & Inanga, 2009). Consequently, providing an appropriate control environment for a local government is very vital to the efficiency of their operation. All of these activities help the board and management control risks that could adversely affect the company's operations and results (Colbert & Bowen,

2009). The policies that direct these control activities should also provide that the company personnel who are responsible for these control activities do not evaluate their own work in these areas.

2.4.2 Risk Assessment Process and Financial Performance

Sudsomboon and Ussahawanitchakit (2009) understood risk assessment as the practice of recognizing and analyzing management relevant risks to the preparation of financial statements that would be presented independently in compliance with general accepted accounting principle. The Company's process for financial reporting is revised annually by the management. This forms a base for assessing the internal management system and internal steering documents to make sure that they cover all substantial areas connected to financial reporting (Beneish*.,* 2007). The shared service center management continuously monitors the accounting quality through a set of performance indicators. Compliance with policies and directives is monitored through annual self-assessments and representation letters from heads and controllers in all subsidiaries as well as in business units and market units.

According to Theofanis *(*2011), breakdowns in the internal control structure can occur due to modest errors or inaccuracies, as well as defective judgments that could be made at any level of management. Similarly, controls can be avoided by complicity or by management override. The design of the internal control system is a function of the existing resources, meaning that there must be a cost-benefit analysis in the design of the system. It is no surprise then that the size of an entity has also been identified by scholars as impacting on the manner in which various components of internal control are implemented (Higgs, 2009). In assessing the effectiveness of internal control activities, it is vital to evaluate them beside entity's objectives and related risks.

COSO (2011) underscores the significance of objective setting in the entity and relates it to risk valuation as a prerequisite. However, it should be emphasized that the company internal control framework should be established in order to have practical assurance to realize established objective, risk identification and analysis are the critical mechanisms. Risk valuation is a systematic process for incorporating professional judgment about apparent adverse circumstances and events, and evaluating the probability of possible losses (financial and non-financial) ensuing from their existence. A number of risk identification techniques can be used, including; management planning conferences, strategic planning, periodic evaluations of factors effecting department's activities, altering needs or prospects of agency officials or the public and natural catastrophes.

2.4.3 Task control and Financial Performance

The institutions' information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned.

Yang (2012) indicated that internal checks operate as part of the normal processing of transactions. Their purpose is to minimize errors and frauds and to detect them in a timely manner where they take place (Piper, 2008). An essential characteristic of the persons preparing internal verification procedures is independence from the individual originally responsible for preparing the data. For performing the internal audit function, the management may set up a separable internal audit department or it may engage professional accountants to perform internal audit. On the basis of internal auditor's examinations, he can report to the management on the relevant aspects giving his observations and suggestions (Chaney & Philipich, 2008).

This system is vital for entity to obtain and exchange the information in order to conduct, manage and govern its operation while the control activities are effected (Frazer, 2011). Information systems are also vital to guide in organization procedure process (Wardiwiyono, 2012). For instance, studies by Hanim *et al.* (2005) found that the better information and communication, the enhanced the performance of audit work which is the person in charge with audit work must identify, analyze, evaluate and record sufficient information to achieve desired objectives. For cooperative organizations, sufficient information and communication are required in order to obtain and transmit important cooperative information for decision making, customer service and business operations (Weber, 2009).

2.4.4 Monitoring and Evaluation and Financial Performance

Monitoring can be achieved by regularly supervising and managing activities in a firm. This may include monitoring of customer complaints, reactions, and periodic audit reports prepared by internal auditors. Hayali. (2011) pointed out that internal auditors can assess and appraise internal control structures and the effectiveness with which the several components are performing their assigned duties.

According to Muraleetharan (2011), at the end of June 2006, there was over \$7 trillion of corporate, state, and local government, asset backed structured finance bonds outstanding with much of it rated by only a (literal) handful of bond rating companies that establish creditworthiness of corporate entities and of governmental units. Linking bond ratings to performance is important particularly in a governmental setting where credit ratings remain a key feature of municipal debt management, and debt is the key source of capital. In this study, the researchers examined whether budgetary control had relationship with performance. The picked a sample of large U.S. cities over the 2003-04 timeframe. The study found that effective level of budgetary control had significant and positive impact on bond rating.

Etengu and Nasieku (2015) examined how the firm has employed an operational budget as a management tool. It set out to determine how operational budgeting practice is actually done, the basis of budget formulation and to what extent the budgets are used as a management and control tool. The study concentrated on companies offering mortgage financing in Kenya. The study revealed that budgets are normally prepared on an annual basis. It was found that all the major Kenyan mortgage financing institutions have an operational budgeting process which they considered extremely important since it is outlined in the organizations objectives, targets, means of achievements, cost of achievement and responsibilities.

2.5 Critique of the Literature

Internal controls are the processes established by an organization in order to guarantee realization of the entity's objectives, goals and missions. The tenacity of internal control is to inhibit errors or mistakes in accounting work, whether these mistakes are accidental or fraudulent (Eko & Hariyanto, 2011; Ewa & Udoayang, 2012; Sahabi *et al.,* 2017). Lack of an effective internal control system has been shown to be one important cause for fraud and, in extreme cases, bankruptcy (Hassan, 2014; Ndembu, 2015). They are a set of policies and measures adopted by an entity in guaranteeing that an organization's transactions are managed in the right way to avoid waste, theft and misappropriation of organization resources. Internal Controls are procedures designed and actualized by those charged with governance, management, and other personnel to provide rational assurance about the accomplishment of an entity's objectives with regard to dependability of the financial reporting, efficiency and competence of operations and compliance with pertinent laws and regulations (Mwindi, 2008).

Internal controls provide practical but not total guarantee to an entity's management and board of directors that the organization's objectives will be realized. The probability of attainment is affected by limitations integral in all systems of internal control" (Hayes, 2005). Organizations institute systems of internal control to enable them realize performance and organizational goals, avert loss of resources, facilitate production of dependable reports and warrant compliance with laws and regulations. The literature review thus casts no doubt on the significance of an effective system of internal control for organizations.

2.6 Research Gaps

A comprehensive internal control process is vital for an entity to ease problems related with dropping revenues and to facilitate the entity to meet its established objective. From the preceding assessment, several researchers seem to agree that there is a relationship between internal control systems and financial performance of an organization. The studied literature shows that there is a need for more thorough research on the investigation of the effect of internal control systems on the financial performance of state corporations. Moreover, the existing theories of financial management performance relate to the experience of public sector in progressive countries and theories that relate particularly to financial and technologically undeveloped public sector remain undeveloped. There was a scarcity in literature on the effects of internal control systems on financial performance in the state owned corporations in Kenya. It was in this light that the current study sought to determine the effect of control environment, risk assessment, task control and monitoring and evaluation on financial performance of state corporations in Kenya.

2.7 Chapter Summary

Most of the highlighted studies in the literature review do not explicitly address the effect of internal control systems on financial performance of state corporations. Specifically, a scarcity of literature in the area of study exists, particularly in the developing states like Kenya. Few studies that have been conducted in the third world nations have eluded criticism in the criteria, title, scope and methodology used hence the research gaps.

The literature review highlights a number of theories in relation to the variables (independent and dependent) and the conceptual framework of the variables by analyzing the relationships between them.

Research Methodology

3.1 Introduction

This chapter presents the methodology which was followed in completing the study. The chapter involves a blueprint for the collection, measurement and analysis of data. It specifically looked at the research design and how this were arrived at, the target population and how this were selected, sampling design and how the sampling frame and sample size were selected, data collection procedures and instruments and analysis and presentation of the collected data. The chapter finishes by looking at ethical considerations that needed to be considered during the research and finally a summary of the chapter.

3.2 Research Design

A research design is a plan and structure of investigation formulated to find solutions or answers to a problem (Johnson & Christensen, 2014). This research problem was studied through the use of a descriptive research design. According to Cooper and Schindler (2011), a descriptive study is concerned with finding out the what, where and how of a phenomenon. The underlining concept is to select several targeted cases where an intensive analysis identified the possible alternatives for solving the research questions on the basis of the existing solution applied in the selected study.

This research design was chosen because the study aimed at collecting information from respondents on their attitudes and opinions in relation to effects of internal control systems on organizational performance of parastatals in Kenya. Sekeran and Bougie (2010) states that the descriptive studies are undertaken to understand the characteristics of organizations that follow certain common practices. It also aimed at establishing how variables related to each other. The descriptive research involves formulation of the study objectives and design of the data collection tools, and providing the investigator with quantitative and qualitative data (Orodho, 2009). Descriptive design provided the study with an appropriate procedure for determining the effects of internal control system on financial performance of State Corporations in Kenya and achieving the objectives of this study.

According to Cooper and Schindler (2011), the major purpose of adopting descriptive design method is that it measures the accuracy of the variables. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. In addition, this design enables the researcher describe the characteristics of the population being studied as they exist at present hence minimizing biases and maximizing the reliability of the evidence collected. Finally, this design was chosen because it also provides a relatively complete picture of what is occurring at a given time and allows the development of questions for further study (Cooper & Schindler, 2011). The intention of descriptive research is to gather data at a particular point in time and use it to describe the nature of existing conditions.

3.3 Target Population

According to Orodho (2009), a population is a clear definition or set of people, services, components, events, group of things or households that are being examined. A target population is a whole group to which a researcher wants to generalize the results of the study and draw conclusions. Mugenda and Mugenda (2012) elucidates that the target population should have some visible characteristics, to which the researcher intends to generalize the results of the study. This definition assumes that the population is not homogeneous. The target population comprised of the 187 state corporations in Kenya.

According to R.O.K (2016), there are 187 state corporations in Kenya. The structure in the state corporations put staffs in three categories; top management level consists of the executives (head of departments and the deputy heads of departments); middle management comprises functional heads (tactical level of management and included all the senior and middle level officers in all sections of the company who are tasked with the responsibility of implementing policies made) while low equal management is mainly union staff (accounting and customer attendant officers whose main responsibility is accomplishment daily tasks which are routine and repetitive in the corporations)

The target respondents were drawn from the state corporations in Kenya. For purpose of this study the target population was stratified through functional categories. Mugenda and Mugenda (2012) explain that the target population should have some observable characteristics, to which the study intends to generalize the

results of the study. This definition assumes that the population is not homogeneous. The population characteristic is as summarized in the table below.

Table 3.1: Target Population

Functional category	Number of state corporations	Percentage
Financial	16	8.6
Commercial/manufacturing	33	17.7
Regulatory	36	19.4
Public universities	31	16.7
Training and Research	14	7.5
Service	45	23.7
Regional Development Authorities	6	3.2
Tertiary Education	6	3.2
Total	**187**	**100.0**

3.4 Sample and Sampling Technique

A sample is a subset of a particular population while sampling is the exercise concerned with the choosing of individual observations intended to yield some knowledge about a population of interest especially for the purpose of statistical extrapolation (Mugenda & Mugenda, 2012). A sample is a small proportion of an entire population; a selection from the population. Sampling is the procedure of choosing a number of individuals for a study in a manner that the individual selected represents the enormous group from which they are selected (Mugenda & Mugenda, 2012).The ability to generalize from a sample to the population depends analytically on the representativeness of the sample. A representative sample is one that has shared attributes with found among the wider population and a careful choice of a research sample enables a researcher to generalize findings from the sample to the population.

The sampling plan defines how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame defines the list of all population units from which the sample is carefully chosen (Cooper & Schindler, 2011). A sampling design refers to the part of the research plan that stipulates how cases are to be selected for observation. This research used both convenient and stratified random sampling. The techniques were chosen because they yielded estimates of overall population parameters with greater precision and ensure a more representative sample is derived from a relatively homogeneous population. Stratification aims at reducing standard error by providing some control over variance. In stratification technique, the population was divided into three mutually exclusive segments called strata. The next procedure was that simple random samples were drawn from each stratum and then joined to form a complete stratified sample.

Kotler (2008) argues that if well chosen, samples of about 10% of a population can often give good reliability. Other literatures have shown that sample size selection to a great extent is judgmentally decided. Using stratified random sampling, the researcher selected 30% of the state corporations with head offices in Nairobi randomly. This resulted to 56 corporations with head offices in Nairobi. Simple random sampling method was used to sample respondents from either top or middle management levels in the selected corporations in Nairobi Kenya. Random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample. Sample sizes larger than 30 and less than 500 are appropriate for most research (Sekaran & Bougie, 2010). For descriptive study, obtaining as big a sample as possible from the population is the rule of thumb: a sample size of between 10% and 30% of the target population is representative enough according to Mugenda and Mugenda (2012).

Table 3.2: Sample Size

Functional category	No. of state corporations	Ratio	Sample size
Financial	16	0.3	5
Commercial/manufacturing	33	0.3	10
Regulatory	36	0.3	11
Public universities	31	0.3	9
Training and Research	14	0.3	4
Service	45	0.3	13
Regional Development Authorities	6	0.3	2
Tertiary Education	6	0.3	2
Total	**187**	**0.3**	**56**

3.5 Research Instruments

Data collection instruments are tools used to collect the information from the intended target population. Primary data were gathered and generated for the project at hand. Secondary data used involved the collection and analysis of published material and information from other sources such as annual reports and published data. The study used a survey questionnaire administered to each member of the sample population. A questionnaire was designed to capture the various variables of the study. Questionnaire enables the researcher to focus on areas of importance and which address the research directly.

Questionnaires were chosen because they assist the researcher to collect large amount of information in a large area within a short period of time. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data collected for the study.

3.6 Data Collection Procedure

The researcher administered the questionnaire individually to all respondents of the study. The study exercised care and control to ensure all questionnaires issued to the respondents were received by maintaining a register of questionnaires sent and received. The questionnaires were administered using a drop and pick later method. The researcher started by explaining to all participants in the study the role they were expected to play and the importance of providing honest information through a cover letter forwarding the questionnaire.

The researcher also assured the participants that the information they give was to be treated with strict confidence. An envelope marked "questionnaire" and thesis were provided so that once the employee completed the questionnaire, they sealed it to ensure confidentiality was maintained within the organization and guard against potential victimization by the human resource division or the persons designated by the corporations to co-ordinate the process. The researcher then proceeded to administer the questionnaires through the designated officers and co-ordinated with them to ensure respondents had adequate time to complete them.

3.7 Pilot Testing

Before actual data collection, a pilot study was conducted. Pilot testing is the measurement of a dependent variable among subjects. Its purpose was to ensure that items in the instrument were stated clearly and had the same meaning to all respondents (Mugenda & Mugenda, 2012). Pre-testing of the questionnaire provides the opportunity to refine the questionnaire by revealing errors in the questions, sequence and design and see how the questionnaire performs under actual conditions. According to Kothari (2008), the purpose of pre-testing the data instrument is to ensure that the items in the instrument are stated clearly and have the same meaning to all respondents. Pretesting permits refinement before the final test (Cooper & Schindler, 2011).

Piloting enhances the instrument's validity and reliability as well as ensured familiarity with the administrative procedures in data collection. The results help the researcher to correct inconsistencies arising from the instruments, which ensure that they measure what it ought to measure. A pilot group of 15 employees of other parastatals outside the target population were selected to test the validity and reliability of the research instrument. In this study, questionnaires were standardized to ensure validity and reliability. The constructed questionnaires were pretested on a sample of 15 staffs from other parastatals outside the target population to find

any form of bias. This involved checking whether the questions were clear and revoked any positive or negative response. It also helped to find out whether the questions measured what was expected.

3.7.1 Validity

According to Connelly (2008) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study was a measure of the degree to which data collected using a particular instrument represented a specific domain or content of a particular concept. Mugenda and Mugenda (2012) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instrument the researcher sought opinions of scholars and experts including the supervisor. This allowed modification of the instrument thereby enhancing validity. Furthermore, the study assessed the responses and non-responses per question to determine if there was any technical dexterity with the questions asked.

3.7.2 Reliability

Reliability was also confirmed by pre-testing the questionnaire with a selected sample from one of the state corporations. Reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument. It is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the "goodness" of measure. According to Mugenda and Mugenda (2012) reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. A researcher should consider the sources of error likely to be present in the study while choosing measure of reliability. The pretest was conducted by both the principle researcher and the research assistants to enhance clarity of the questionnaire.

According to Mugenda and Mugenda (2012), the accuracy of the data collected largely depends on the data collection instrument in terms of validity and reliability. This instrument was reviewed based on the pre-test experience. Internal consistency method was tested using Cronbach's Alpha. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct. Reliability with a predetermined threshold of 0.7 is considered acceptable. That is, values above 0.75 indicated presence of reliability while values below signified lack of reliability of the research instrument.

The pilot study was carried among 15 respondents purposively chosen and reliability tested using a Cronbach's alpha. A reliability of above 0.7 was achieved and this was considered reliable as recommended by Healey (2011) who recommended that a reliability test which yields a coefficient greater than or equal to 0.7 is sufficient enough. The respondents were also informed that the research was meant for academic purposes only and that the study had no intention of using the information for personal gains. The respondents were not required to indicate their names and participation in the study was on voluntary basis.

3.8 Data Analysis and Presentation

Prior to processing the responses, the completed questionnaires were checked for completeness and dependability. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was presented using bar charts, graphs and pie charts. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open-ended questions.

In addition, to quantify the strength of the relationship between the variables, the researcher conducted a simple regression analysis to establish the effect of internal control systems on financial performance of state corporations in Kenya. The data was broken down into the different aspects of internal control systems affecting financial performance of state corporations in Kenya. The regression equation was:

$$Y = \beta_0 + \beta_i X_i + \varepsilon:$$

Whereby; Y = financial performance of state corporations, $X_i = X_1$, X_2, X_3 and X_4. Where X_1 = control environment, X_2 = risk assessment, X_3 = task control and X_4 = monitoring and evaluation. Further, β_0 = the regression intercept, β_1, β_2, β_3 & β_4 = Regression Coefficients and ε = Error term normally distributed about a mean of 0 and for purposes of computation ε is assumed to be 0. Averages, frequencies and percentages

accurately serve this purpose. There was further processing for presentation of results in a variety of graphs and charts using Ms Excel. Conclusions were then drawn from the findings and recommendations made. This offered a quantitative and qualitative description of the objectives of the study.

Analysis of variance (ANOVA) from SPSS regression output was used to determine the significance of the model using the F-statistic at 0.05 level of significance. The t statistic was also determined to give the impact of each predictor variable – a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable. The nature and strength of the relationship between the dependent and independent variables was measured through various diagnostic tests. These included Multicollinearity test, Unit root test and Huaseman test.

Data Analysis, Presentation and Interpretation

4.1 Introduction

The purpose of this study was to look into the effect of internal control systems on financial performance of state corporations in Kenya. It specifically looked at the following objectives; to determine the effect of control environment on the financial performance of state corporations in Kenya, to assess the influence of risk assessment on the financial performance of state corporations in Kenya, to examine the effect of task control on the financial performance of state corporations in Kenya and to assess influence of monitoring and evaluation on the financial performance of state corporations in Kenya.

A detailed report on the analysis of primary data collected from the state corporations using a questionnaire and secondary data was administered. The analysis of data was done using SPSS (version 25). The results were presented using descriptive and inferential statistics in accordance with the order and form of the tools used to collect the data, allowing the different forms to complement each other. The data collected was processed based on the research questions posed. The findings were analyzed and interpreted in descriptive and inferential statistics where the results were presented using tables and figures.

4.2 Response Rate

Response rate is the degree to which the final data set including all sample members are calculated from the number of people with whom interviews were completed divided by total number of people in the entire sample. This includes those who declined to participate and the unavailable. The number of questionnaires distributed to the state corporations was fifty-three. The questionnaire return rate results are shown in Table 4.1.

Table 4.1: Response Rate

Category	Frequency	Percentage (%)
Responded	48	86.0
Did not respond	8	14.0
Total	**56**	**100.0**

According to the results depicted in Table 4.1, 48 out of 56 respondents from the state corporations in the financial services, commercial/manufacturing, regulatory, public universities, training and research, service, regional development authorities and tertiary education filled in and returned the questionnaire. The response rate achieved for the questionnaire was 86.0%. This response rate was a representative and conforms to Mugenda and Mugenda (2012) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate was due to extra efforts that were made via personal calls and visits to remind the respondent to fill-in and return the questionnaires. The questionnaires that were not returned were due to reasons like the respondents were unavailable to fill them at that time and with persistent follow-ups there were no positive responses from them. However, the response rate demonstrates a willingness of the respondents to participate in the study.

4.3 Internal Control Systems in State Corporations

In this section, the researcher sought to determine the existence of internal control systems in state corporations in Kenya.

Table 4.2: Existence of Internal Control Systems

Extent	Frequency	Percent
Strongly agree	14	29.2
Agree	27	56.3
Not sure	7	14.6
Total	**48**	**100.0**

As shown in Table 4.2, 56.3% of the respondents agreed on the existence of internal control systems in their organizations, 29.4% of the respondents strongly agreed on the existence of internal control systems in their organizations, while 13.7% were not sure of the existence of internal control systems in their organizations. It is clearly depicted in the results that there exist internal control systems in state corporations in Kenya.

The respondents were further required to indicate the extent to which they agreed with various statements relating to internal control systems in their organization. A scale of 1 to 5 was provided where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5= strongly agree and the results obtained are presented in Table 4.3.

Table 4.3: Statements on Internal Control Systems

Statements on internal control systems

	Strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std. Dev.
Internal control systems affect the Corporation's financial leverage	0	17.6	26.9	47.2	8.3	3.4630	0.8799
Internal control systems play a crucial role on the development index of state corporations	0	3.1	45.8	45.8	5.2	3.5313	0.6481
ICS facilitate the efficient operation of the Corporation	0	21.2	21.2	34.6	23.1	3.5962	1.0711
ICS enable the corporation to respond appropriately to significant risks	0	5.2	43.8	46.9	4.2	3.5000	0.6649
Internal control systems facilitate ethical values	0	7.4	40.7	44.5	7.4	3.5104	0.7677
ICS drive the entity and the foundation on which the Corporation's activities rest on	0	10.4	44.8	33.3	11.5	3.4583	0.8325
ICS support people in the achievement of the Organization's objectives	0	9.3	18.5	55.6	16.7	3.522	1.0112

The interpretation of the results in the table above was done in relation to the key provided where the means checked up in the key to reveal the corresponding measure in the scale. As shown in Table 4.3, majority of the respondents strongly agreed that ICS facilitates the efficient operation of the corporations as shown by a mean score of 3.5962, the respondents strongly agreed that internal control systems play a crucial role on the development index of state corporations as shown by a mean score of 3.5313. The respondents strongly agreed that ICS support people in the achievement of the organizations' objectives as shown by a mean score of 3.522. The respondents strongly agreed that internal control systems facilitate ethical values as shown by a mean score of 3.5104 and they strongly agreed that ICS enable the corporations to respond appropriately to significant risks as shown by a mean score of 3.5000. However, the respondents agreed that internal control systems affect the corporations' financial leverage as shown by a mean score of 3.4630 and they also agreed that ICS drive the entity and the foundation on which the corporations' activities rest on as shown by a mean score of 3.4583.

These results imply that state corporations use internal control systems to influence various aspects of their performance including development index, efficient operations, financial leverage, responding to risks, facilitate ethical values, organizational activities and objectives.

4.4 Control Environment in State Corporations

In order for the study to achieve its main objective the first specific objective of the study was to establish the effect of control environment on financial performance of state corporations in Kenya. In this respect the respondents were required to rate the extent to which control environment influence the financial performance of their organizations. According to the results shown in Figure 4.1, 47% of the respondents indicated that control environment influenced the financial performance of their organizations to a great extent, 42% of the respondents to a moderate extent, while 11% of the respondents to a little extent. It is clearly depicted in the results that there is a significant influence of control environments on the financial performance of state corporations in Kenya.
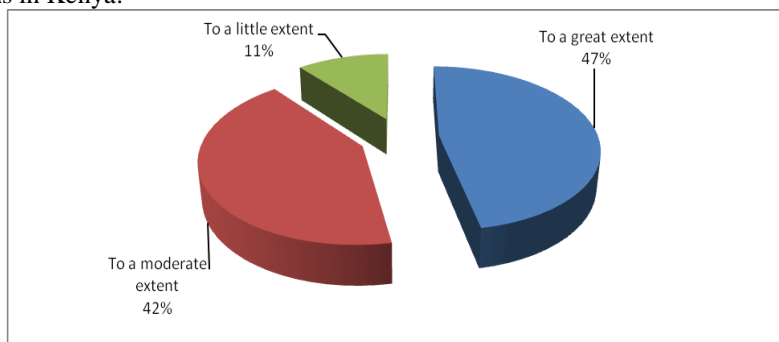

Figure 4.1: Control Environment on Financial Performance

The respondents were further required to indicate the extent to which various aspects of control environment influenced financial performance in their organizations. The results obtained are presented in Table 4.4.

Table 4.4: Aspects of Control Environment

Aspects of control environments	No extent	Little extent	Moderate extent	Large extent	Very large extent	Mean	Std. Dev.
Control policies,	0	5.2	43.8	46.9	4.2	3.5000	0.6649
Control procedures	0	21.2	21.2	34.6	23.1	3.5962	1.0711
Control methods	0	17.6	26.9	47.2	8.3	3.4630	0.8799

In this section, the calculated weighted mean is rounded off to the nearest whole number and the result counter-checked against the matching number in the key provided. Accordingly, majority of the respondents reported that control procedures influenced financial performance of their organizations to a great extent as shown by a mean score of 3.5962 as well as control policies shown by a mean score of 3.5000. The results further showed that control methods influenced financial performance of their organizations to a moderate extent as shown by a mean score of 3.4630. These results reveal that control environment aspects of policies, procedures, and methods have the potential of determining the financial outcome of different activities undertaken by state corporations in Kenya.

The study also sought to establish the extent to which the respondents agreed with various statements with regard to control environment in their organizations. A scale of 1 to 5 was provided where 5= Strongly Agree, 4 = Agree, 3 = neutral/undecided, 2 = Disagree and 1 = Strongly Disagree.

Table 4.5: Statements on Control Environment

Statements on control environment	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The state corporations' internal control structure is based on the division of labor.	0	7.5	34.3	44.8	13.4	3.6410
Control environment reflect the control policies of the state corporations.	0	3.7	38.9	38.9	18.5	3.2960
The control environment assist toward reducing the level fraudulent activities within organizational operation	0	3.1	49.0	43.8	4.2	3.4940
The quality of an entity's systems of internal controls depend on function and quality of their environment control	0	13.4	28.4	47.8	10.4	3.5520
The control methods are updated regularly to include specific controls to be performed	0	3.6	48.2	42.0	6.3	3.5130

According to the study results, majority of the respondents concurred that the state corporations' internal control structure is based on the division of labor as shown by a mean score of 3.6410, the quality of an entity's systems of internal controls depend on function and quality of their environment control as shown by a mean score of 3.5520 and that the control methods are updated regularly to include specific controls to be performed as shown by a mean score of 5130. On the other hand, the respondents indicated neutrality on that the control environment assist toward reducing the level fraudulent activities within organizational operation as shown by a mean score of 3.4940 and that control environment reflect the control policies of the state corporations as shown by a mean score of 3.2960. From these results, it is clear that strong and effective control environment system has the potential of strengthening governance, help in achievement of set goals and objectives by the management and risk mitigation.

4.5 Risk Assessment in State Corporations

To assess the influence of risk assessment on the financial performance of state corporations in Kenya, the respondents were asked to indicate extent to which risk assessment influenced the financial performance in their organization. From the results in Figure 4.2, 50.0% of the respondents indicated that risk assessment influenced the financial performance of organizations to a great extent, 31.3% of them to a moderate extent, 10.4% of them to a very great extent, while 6.3% of them to a little extent.
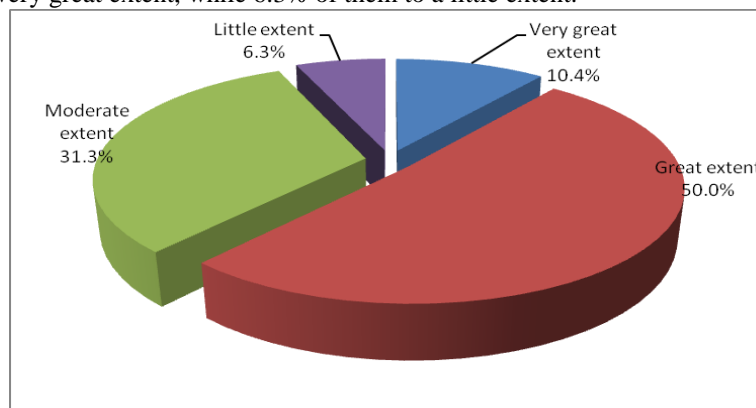

Figure 4.2: Risk Assessment on Financial Performance

The study further sought to establish the respondents' views on the extent to which various aspects of risk assessment relate to the financial performance of state corporations in Kenya. Table 4.6 shows the results obtained.

Table 4.6: Aspects of risk Assessment

Aspects of risk assessment

	Not all	Little	Moderate	Great	Very great	Mean	Std dev
Risk identification	0	7.2	40.7	44.5	7.2	3.5104	0.7677
Risk evaluation	0	22.9	29.2	33.3	14.6	3.3330	1.4923
Risk response	0	7.5	34.3	44.8	13.4	3.6410	1.8837

From the study, majority of the respondents reiterated that risk response influenced financial performance of their organizations to a great extent as shown by a mean score of 3.6410 and risk identification to a great extent as shown by a mean score of 3.5104. On the other hand, most of the respondents reported that risk evaluation influenced financial performance of their organizations to a moderate extent as shown by a mean score of 3.3330. These results show that risk identification play a crucial role in risk assessment and management in the public sector which culminates to a given level of financial performance in the sector.

The study further sought to establish the respondents' level of agreement with various statements with regard to risk assessment in their organizations. A scale of 1 to 5 was provided where 1 is strongly disagree and 5 is strongly agree.

Table 4.7: Statements on Risk Assessment

Statements on Risk Assessment

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std dev
Risks are mitigated through well-defined business processes with integrated risk management activities and segregation of duties and appropriate delegation of authority to influence financial performance	0	3.1	45.8	45.8	5.2	3.5313	0.6481
Risk assessment involve the identification and analysis of relevant risks facing the Corporation	0	10.4	44.8	33.3	11.5	3.4583	0.8325
Assessment of risk integrate professional judgment about probable adverse conditions and the likelihood of possible losses	0	3.7	48.2	44.4	3.7	3.4896	0.7677
There are mechanisms in place to identify and react to changes that can bring about risk in the Corporation	0	6.3	33.3	51.0	9.4	3.6354	0.7415
The management of this Corporation has put in place mechanisms to reduce risks	0	4.2	45.8	37.5	12.5	3.5833	0.7755

From the study, the highest ranking mean score was 3.6354 implying that majority of the respondents agreed that there are mechanisms in place to identify and react to changes that can bring about risk in the Corporation. The respondents further agreed that the management of the state corporations has put in place mechanisms to reduce risks as shown by a mean score of 3.5833 and that risks are mitigated through well-defined business processes with integrated risk management activities and segregation of duties and appropriate delegation of authority to influence financial performance as shown by a mean score of 3.5313. However, there was neutrality on that assessment of risk integrate professional judgment about probable adverse conditions and the likelihood of possible losses as shown by a mean score of 3.4896 and that risk assessment involve the identification and analysis of relevant risks facing the corporations as shown by a mean score of 3.4583. From

these results, risk the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact ensures that the corporations are cushioned against misstatement of finances or unproductive utilization of assets which negatively affects their financial performance.

4.6 Task Control in State Corporations

In line with its third objective, the study sought to establish the extent to which task control relate to the financial performance of the state corporations in Kenya. From the study, 45.7% of the responses indicated that task control influenced financial performance of their organizations to a great extent, 32.6% of them indicated to a moderate extent, 17.4% of the respondents to a very great extent, while 4.3% of the respondents to a little extent. These results imply that task control contributes immensely to the financial performance of the state corporations in Kenya.
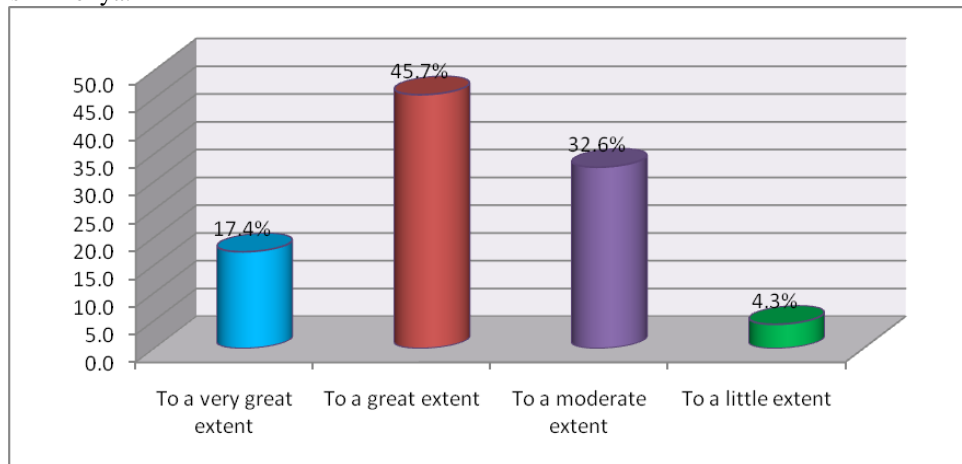

Figure 4.3: Task control on financial performance

The study further sought to ascertain the extent to which various aspects of task control influenced financial performance of state corporations in Kenya. A scale of 1 to 5 was provided where 1= no extent, 2= little extent, 3= moderate, 4= large extent and 5 is to a very large extent.

Table 4.8: Aspects of Task Control

Aspects of task control	Not all	Little Extent	Moderate Extent	Great Extent	Very great Extent	Mean	Std dev
Information and communication	0	3.2	45.8	45.8	5.2	3.5313	0.6481
Internal processes	0	10.4	44.8	33.3	11.5	3.4583	0.8325
Identification of operational issues	0.0	17.6	26.9	47.2	8.3	3.4630	0.8799

From the study, majority of the respondents indicated that information and communication influenced financial performance of their organizations to a great extent as shown by a mean score of 3.5313 while identification of operational issues and internal processes to moderate extents as shown by mean scores of 3.4630 and 3.4583 respectively. Information and communication, internal processes and identification of operational issues determines effectiveness of the organizations to identify, capture, process and report relevant and reliable information in a timely manner so that they can carry out their responsibilities effectively.

The study also sought to establish the extent to which the respondents agreed with various statements regarding the task control. The results of this section are analyzed in line with a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

Table 4.9: Statement on Task Control

Statements on task controls

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	Std dev
The corporations' information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned.	3.7	13.0	27.8	50.0	5.6	3.4110	0.1925
Information is the vehicle by which control policies, procedures are introduced and reinforced	0	3.1	49.0	43.8	4.2	3.4940	0.6323
Communication enable employees to become aware of management's commitment to internal controls	0	27.1	6.8	41.4	22.6	3.5320	1.1772
Reliable and relevant information from both internal and external sources is communicated to everyone in the organization	0	3.1	44.8	45.8	6.3	3.5530	0.6628
Task controls are implemented thoughtfully, conscientiously and consistently for them to be useful	0	3.1	44.8	45.8	6.3	3.5530	0.6628

Based on the results as tabulated in Table 4.9, most of the respondents concurred that reliable and relevant information from both internal and external sources is communicated to everyone in the corporations as shown by a mean score of 3.5530, task controls are implemented thoughtfully, conscientiously and consistently for them to be useful as shown by a mean score of 3.5530 and communication enable employees to become aware of management's commitment to internal controls as shown by a mean score of 3.5320. On the other hand, there was impartiality with that information is the vehicle by which control policies, procedures are introduced and reinforced as shown by a mean score of 3.4940 and the corporations' information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned as shown by a mean score of 3.4110. These results imply that communication and information-systems enable people in the organization to carry out their responsibilities, information is the vehicle by which control policies, procedures are introduced and reinforced and information be communicated throughout the corporations to permit personnel to carry out their responsibilities.

4.7 Monitoring & Evaluation in State Corporations

To assess influence of monitoring and evaluation on the financial performance of state corporations in Kenya, the respondents were asked to indicate the extent to which monitoring and evaluation influenced financial performance of their organizations. Accordingly, 56.8% of the respondents indicated that monitoring and evaluation influenced financial performance of their organizations to a moderate extent, 29.5% of the respondents indicated to a great extent, 9.1% of the respondents indicated to a little extent, while 5% of them indicated to a very great extent. The results imply that in general monitoring and evaluation influenced to a moderate extent the financial performance of the state corporations in Kenya.
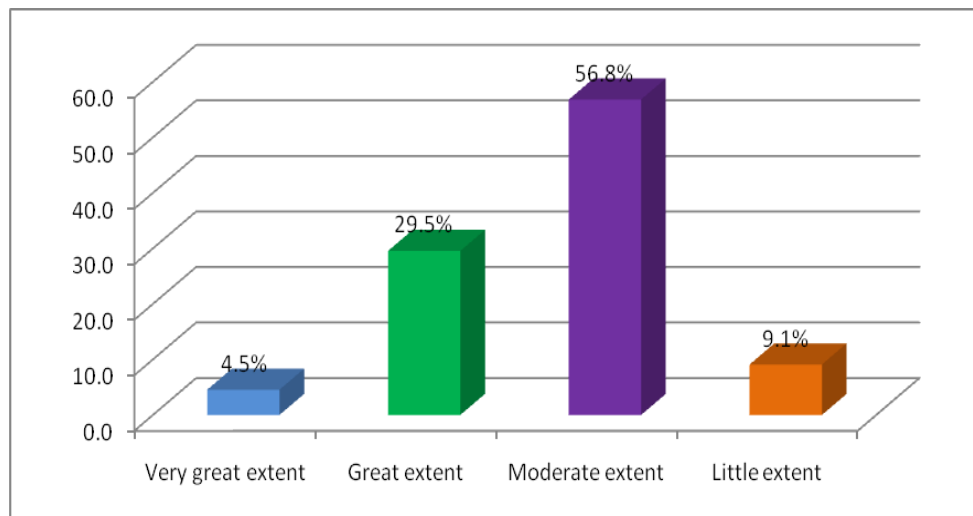
Figure 4.4: Monitoring and evaluation on financial performance

The study further sought to ascertain the extent to which various aspects of monitoring and evaluation influenced the financial performance of state corporations in Kenya. From the raw data, the results were averaged using weighted mean scores and an output obtained. For interpretation, the weighted means were rounded off to nearest whole number as presented in Table 4.10.

Table 4.2: Aspects of Monitoring and Evaluation

Aspects of monitoring & evaluation	Not all	Little Extent	Moderate Extent	Great Extent	Very great Extent	Mean	Std dev
Periodical financial reports	0	5.2	43.8	46.9	4.2	3.5000	0.6649
Reporting standards	0	21.2	21.2	34.6	23.1	3.5962	1.0711
Compliance with regulations	0	17.6	26.9	47.2	8.3	3.4630	0.8799

According to Table 4.10, reporting standards and periodical financial reports influenced financial performance of organizations to great extents as shown by mean scores of 3.5962 and 3.5000 respectively. On the other hand, compliance with regulationsto a moderate extent as shown by a mean score of 3.4630. These results imply that monitoring is a function of internal control of state corporations. This was demonstrated by the results, which showed that management is keen in assigning responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports and that monitoring has helped in assessing the quality of performance of the organization over time.

The study further sought to determine the respondents' level of agreement with various statements regarding monitoring and evaluation. The results are as depicted in Table 4.11.

Table 4.3: Statements on Monitoring & Evaluation

Statements on monitoring and evaluation	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std dev
Monitoring is accomplished by ongoing monitoring activities and by separate evaluations	0.0	29.0	7.0	41.0	23.0	3.5528	1.1843

of intern controls

Monitoring helps in ensuring that all employees are compliant with the internal policies of the business	0.0	22.9	29.2	33.3	14.6	3.3330	1.4923
Monitoring determines whether internal control is adequately designed, properly executed and effective	0.0	4.1	29.2	44.8	21.9	3.5940	0.6481
Monitoring provides assurance that the findings of audits and other reviews are promptly determined	0.0	10.4	44.8	33.3	11.5	3.4583	0.8325
M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run.	0.0	6.3	33.3	51.0	9.4	3.6354	0.7415
Financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure.	0.0	17.6	26.9	47.2	8.3	3.4630	0.8799
Financial reporting							

From the study, most of the respondents agreed that M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run as shown by a mean score of 3.6354, monitoring determines whether internal control is adequately designed, properly executed and effective as shown by a mean score of 3.5940 and monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls as shown by a mean score of 3.5528. The respondents however neither agreed nor disagreed with that financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure as shown by a mean score of 3.4630, monitoring provides assurance that the findings of audits and other reviews are promptly determined as shown by a mean score of 3.4583 and that monitoring helps in ensuring that all employees are compliant with the internal policies of the business as shown by a mean score of 3.3330. From these results, monitoring embraces how frequent the quality and effectiveness of internal controls are assessed and reviewed over time. Accordingly monitoring has helped in assessing the quality of performance, the corporations continuously monitor the accountability through a set of financial reporting indicators and there is monitoring of employees' compliance with policies and directives through annual assessments and internal human audits.

4.8 Inferential Analysis
To establish the relationship between the independent variables and the dependent variable of the study the study conducted inferential analysis. The study sought to complement the descriptive analysis by carrying out a multiple regression analysis. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The model summary for the regression is shown in Table 4.12 below.

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981(a)	0.863	0.691	0.752

a. Predictors: (Constant), control environment, risk assessment, task control and monitoring & evaluation.
Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance of state corporations) that is explained by all the four independent variables (control environment, risk assessment, task control and monitoring & evaluation). The four independent variables that were studied,

explain 86.3% of the financial performance of state corporations as represented by the R^2, while other factors not studied in this research contributes 13.7% of the financial performance of state corporations in Kenya.

Analysis of variance (ANOVA) is usually conducted prior to other inferential analyses to establish if there are any statistically vital variances between the means of two or more independent clusters. In this study a one-way analysis of variance that provided information about variance levels within the regression model and which formed a footing for tests of significance was used. All the independent variables were combined and involved in the analysis of variance. The results of ANOVA test for regression coefficients are shown in Table 4.13.

Table 4.5: ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.14	4	0.535	3.282	.032
	Residual	7.009	44	0.163		
	Total	9.149	48			

The analysis results revealed that the significance of F statistics is 0.032 which is less than 0.05. The critical values for F-test (4, 44, at 0.05 alpha is 2.61) which is less than the computed F-value (3.282). This implies that there is a significant relationship between control environment, risk assessment, task control and monitoring & evaluation and financial performance of state corporations in Kenya.

Table 4.6: Regression Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients		t		Sig.	
		B	Std. Error	Beta			
(Constant)		1.376	.415			3.316	0.002
Control environment		.289	.070	.301		4.146	0.032
Risk assessment		.274	.074	.270		3.684	0.041
Task control		.311	.077	.295		4.036	0.023
Monitoring and evaluation		.313	.060	.369		5.226	0.012

The coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable that is explained by all the four independent variables. The regression model established becomes:

$Y = 1.376 + 0.289X_1 + 0.274X_2 + 0.311X_3 + 0.313X_4 + 0.415$

The regression equation above has established that holding all factors (control environment, risk assessment, task control and monitoring and evaluation) constant at zero financial performance of state corporations in Kenya will be 1.376. The model indicates that, if the predictor variables are held constant, there would be a positive financial performance of the forex bureaus. The findings presented also show that taking all other independent variables at zero, a unit increase in monitoring and evaluation would lead to a 0.313 increase in the scores of financial performance of state corporations. Monitoring and evaluation had a significant value of 0.012 which is less than 0.05 depicting the significance of the relationship between monitoring and evaluation and financial performance of state corporations. Therefore, based on these, there is a positive and significant relationship between a unit monitoring and evaluation and financial performance of state corporations.

The results also show that the financial performance of state corporations is positive and significantly related to task control. This is indicated by a regression coefficient of 0.311 which is a positive coefficient and a p-value of 0.023 less than 0.05 showing the significance of the relationship. Based on the coefficient, it is evident that a unit increase in task control would result to 0.311 times increase in financial performance of state corporations in Kenya. Risk assessment was also seen to have a positive effect on the financial performance of state corporations in Kenya. This is shown by the regression coefficient of 0.274 with a significance value of 0.041 which is less than 0.05 the critical value at the 5% level of significance. This therefore shows that given a

unit increase in risk assessment would result to 0.274 changes in financial performance of state corporations in Kenya.

The regression model as well shows that control environment is positively related to state corporations in Kenya. The regression coefficient for this was obtained to be 0.289 with a significant value of 0.032 less than 0.05 indicating a significant effect of control environment on financial performance of state corporations in Kenya. Thus, a unit change in control environment would result to 0.289 times change in financial performance of state corporations in Kenya. Overall, monitoring & evaluation and task control had the greatest effect on the financial performance of state corporations in Kenya. Testing the significance of the coefficients at 95% confidence level, the table indicates that all the variables had a significance value less than 0.05 ($p<0.05$) thus confirming the significance of the results. Also, from the table, all the variables indicated a positive coefficient indicating a positive relationship between the dependent and independent variables.

Summary of Findings, Conclusions and Recommendations

5.1 Introduction

This is the final chapter in this study which gives the summary of the findings, the discussion, conclusions, recommendations of the study based on the objective of the study and suggestions for further findings. It comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study. The chapter finally presents the suggestions for further studies.

5.2 Summary of the Findings

The study sought to determine the effect of internal control systems on financial performance of state corporations in Kenya. Based on the results this section draws a summary of findings on the effect of control environment, risk assessment, task control and monitoring & evaluation on the financial performance of state corporations in Kenya.

The study found that internal control systems affect the financial performance of the state corporations to a moderate extent. Accordingly, ICS facilitate the efficient operation of the corporations, internal control systems play a crucial role on the development index of state corporations, ICS support people in the achievement of the organizations' objectives, internal control systems facilitate ethical values and ICS enable the corporations to respond appropriately to significant risks to great extents. In addition, the internal control systems affect the corporations' financial leverage and ICS drive the entity and the foundation on which the corporations' activities rest on to moderate extents.

From the Coefficient of determination, the four independent variables that were studied, explain a big percentage of the financial performance of state corporations as represented by the R^2. The ANOVA results imply that there is a significant relationship between control environment, risk assessment, task control and monitoring & evaluation and financial performance of state corporations in Kenya. The regression analysis revealed that monitoring & evaluation and task control had the greatest effect on the financial performance of state corporations in Kenya and all the variables had a significance value less than 0.05 ($p<0.05$).

5.2.1 Effect of Control Environment on Financial Performance of Corporations

The study revealed that control environments affect the financial performance of state corporations in Kenya to a great extent. The study found that control procedures and control policies affect the financial performance of state corporations to great extents, while control methods affect the financial performance of state corporations to a moderate extent. There was affirmation on that the state corporations' internal control structure is based on the division of labor, the quality of an entity's systems of internal controls depend on function and quality of their environment control and that the control methods are updated regularly to include specific controls to be performed. However, there was detachment on that the control environment assist toward reducing the level fraudulent activities within organizational operation and that control environment reflect the control policies of the state corporations.

5.2.2 Effect of Risk Assessment on Financial Performance of State Corporations

The study found that risk assessment affects the financial performance of the state corporations to a great extent. The study established that risk response and risk identification affect the financial performance of

state corporations in Kenya to great extents whereas risk evaluation affects the financial performance of state corporations in Kenya to a moderate extent. There was confirmation that there are mechanisms in place to identify and react to changes that can bring about risk in the corporations, the management of the state corporations has put in place mechanisms reduce to risks that may result from risks and that risks are mitigated through well defined business processes with integrated risk management activities and segregation of duties and appropriate delegation of authority to influence financial performance. On the other hand, there was neutrality on that assessment of risk integrate professional judgment about probable adverse conditions and the likelihood of possible losses and that risk assessment involve the identification and analysis of relevant risks facing the corporations.

5.2.3 Effect of Task Control on Financial Performance of State Corporations

From the results, task control affects the financial performance of the state corporations to a great extent. The study found that information and communication affect the financial performance of state corporations to a great extent. In addition, identification of operational issues and internal processes affect the financial performance of state corporations to moderate extents. There was agreement on that reliable and relevant information from both internal and external sources is communicated to everyone in the corporations, task controls are implemented thoughtfully, conscientiously and consistently for them to be useful and communication enable employees to become aware of management's commitment to internal controls. However, there was neutrality on that information is the vehicle by which control policies, procedures are introduced and reinforced and the corporations' information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned.

5.2.4 Effect of Monitoring & Evaluation on Financial Performance of Corporations

The study found that monitoring and evaluation affect the financial performance of the state corporations to a moderate extent. From the study, reporting standards and periodical financial reports affect the financial performance of state corporations in Kenya to great extents, while compliance with regulations affects the financial performance of state corporations in Kenya to a moderate extent. M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run, monitoring determines whether internal control is adequately designed, properly executed and effective, monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls, financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure, monitoring provides assurance that the findings of audits and other reviews are promptly determined and monitoring helps in ensuring that all employees are compliant with the internal policies of the business.

5.3 Conclusions

The study concludes that there is a significant effect of internal controls on financial performance of the state corporations in Kenya. The state corporations use internal control systems to influence various aspects of their performance including development index, efficient operations, financial leverage, responding to risks, facilitate ethical values, organizational activities and objectives.

The study deduces that there is a significant effect of control environments on the financial performance of state corporations in Kenya. The control environment aspects of policies, procedures, and methods have the potential of determining the financial outcome of different activities undertaken by state corporations in Kenya. Accordingly, a strong and effective control environment system has the potential of strengthening governance, help in achievement of set goals and objectives by the management and risk mitigation.

The study inferred that that risk assessment has a considerable effect on the financial performance of the state corporations. As such risk identification plays a crucial role in risk assessment and management in the public sector which culminates to a given level of financial performance in the sector. This is clear indication that risk identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact ensures that the corporations are cushioned against misstatement of finances or unproductive utilization of assets which negatively affects their financial performance.

The study concludes that task control contributes immensely to the financial performance of the state corporations in Kenya. This implies that information and communication, internal processes and identification of operational issues determines effectiveness of the corporations to identify, capture, process and report relevant and reliable information in a timely manner so that they can carry out their responsibilities effectively. The study revealed that communication and information-systems enable people in the organization to carry out their responsibilities, information is the vehicle by which control policies, procedures are introduced and reinforced and information be communicated throughout the corporations to permit personnel to carry out their responsibilities.

The study deduces that there is a moderate effect of monitoring and evaluation on the financial performance of the state corporations in Kenya. According to the findings, monitoring & evaluation is a function of internal control of state corporations and the management of state corporations is keen in assigning duties for the appropriate evaluation of audit reports and resolution of any non-compliance items noted in those audit reports and that monitoring has facilitated in valuing the quality of performance of the organization over time. Monitoring entails how frequent the quality and effectiveness of internal controls are evaluated and appraised over time. Accordingly monitoring has helped in assessing the quality of performance, the corporations continuously monitor the accountability through a set of financial reporting indicators and there is monitoring of employees' compliance with policies and directives through annual assessments and internal human audits.

5.4 Recommendations

The study recommends that state corporations should ensure there they have effective control environment and ensure that they establish relevant policies to ensure that their internal control environment is effective to enhance the financial performance of state corporations. As such, policies and procedures should be periodically reviewed by the board to ensure that appropriate control environment has been established. There is need to intensify control environment measures in order to curb fraud and misappropriation of resources in the public sector.

Since risk assessment was found to affect the financial performance of state corporations, the study recommends that the management of the state corporations should equip the institutions with the relevant measures to determine the level of risk carefully and try to maintain such risk at lowest possible levels that do not affect their financial performance negatively. The management of the state corporations should further design modern and elaborate risk assessment mechanisms to ensure efficiency and effectiveness, reliability and compliance with laws and regulations governing the state corporations. This can be achieved by upgrading of the risk identification, risk evaluation and risk response of their operations.

The study recommends that the management of state corporations and other public institutions should develop information and communication mechanisms to incorporate relevant feedback from the various stakeholders into their internal control system. A key issue of concern involves that authorities should develop and plan for constant seminars and workshops to train and educate auditors, accountants and heads of departments on matters concerning current trends of control measures as well as proper application of accounting policies and procedures.

The study further recommends that the state corporations should guarantee there is a monitoring and evaluation system in place to determine compliance with internal controls and where instances of noncompliance are reported to the relevant authorities. In addition, involving stakeholders (primary and secondary) to participate in various activities of the state corporations is critical. Thus M&E plans should be developed with all stakeholders so as to enhance ownership and compliance. The planning of the state corporations should be done in a holistic manner from a bottom up approach where everyone should be brought on board. This would improve accountability, ensure proper resource utilization and ensure that state corporation employees and other stakeholders are working towards common goals.

5.5 Areas for Further Research

This was a study focusing on internal control systems and financial performance of the state corporations in Kenya. Another study should be conducted on the effect of internal control systems on financial performance of private companies. A study on effect of each of the aspects of internal control systems on financial statements should also be conducted.

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Appendix I: Research Questionnaire

This questionnaire is designed to collect data on the **Effect of Internal Control Systems on Financial Performance of State Corporations in Kenya**. This questionnaire consists of three major parts. Kindly respond to all questions by putting a tick (✔) in the box matching your answer or write your answer in the space provided if it is not included in the choices. The information given here will only be used for purposes of this study and will be treated with utmost confidentiality. Your cooperation will be highly appreciated.

Section A: INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE

1. Our institution has internal control systems

strongly agree	agree	not sure	disagree	strongly disagree

2. The following statements relate to internal control systems. Show the extent you agree with them in respect to your organization. Where; 5= strongly agree, 4= agree, 3= not sure, 2= disagree and 1= strongly disagree

Statements on internal control systems	1	2	3	4	5
Internal control systems affect the Corporation's financial leverage					
Internal control systems play a crucial role on the development index of state corporations					
ICS facilitate the efficient operation of the Corporation					
ICS enable the corporation to respond appropriately to significant risks					
Internal control systems facilitate ethical values					
ICS drive the entity and the foundation on which the Corporation's activities rest on					
ICS support people in the achievement of the Organization's objectives					
Others (Specify……………………………………………..)					

Control Environment and Financial Performance

3. Control environment influences financial performance of our organization

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

4. The following are aspects of control environments. To what extent do they influence financial performance in your organization? Use a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate, 4= large extent and 5 is to a very large extent

Aspects of control environments	1	2	3	4	5
Control policies,					
Control procedures					
Control methods					
Others (Specify…………..…………..………………….)					

5. The following statements relate to control environment. Show the extent you agree with them with respect to your organization. Use a scale of 1 to 5 where 5= Strongly Agree, 4 = Agree, 3 = neutral/undecided, 2 = Disagree and 1 = Strongly Disagree

Statements on control environment	1	2	3	4	5
The state corporations' internal control structure is based on the division of labor					
Control environment reflect the control policies of the state corporations.					

The control environment assist toward reducing the level fraudulent activities within organizational operation				
The quality of an entity's systems of internal controls depend on function and quality of their environment control				
The control methods are updated regularly to include specific controls to be performed				

Risk Assessment and Financial Performance

6. Risk assessment process influences the financial performance of our organization.

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

7. The following are aspects of risk assessment. To what extent do they influence financial performance in your organization? Use a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate, 4= large extent and 5 is to a very large extent

Aspects of risk assessment	1	2	3	4	5
Risk identification					
Risk evaluation					
Risk response					
Others (Specify…………..…………..………………….)					

8. The following statements relate to risk assessment. Show the extent you agree with them with respect to your organization. Use a scale of 1 to 5 where 5= Strongly Agree, 4 = Agree, 3 = neutral/undecided, 2 = Disagree and 1 = Strongly Disagree

Statements on Risk Assessment	1	2	3	4	5
Risks are mitigated through well-defined business processes with integrated risk management activities and segregation of duties and appropriate delegation of authority to influence financial performance					
Risk assessment involve the identification and analysis of relevant risks facing the Corporation					
Assessment of risk integrate professional judgment about probable adverse conditions and the likelihood of possible losses					
There are mechanisms in place to identify and react to changes that can bring about risk in the Corporation					
The management of this Corporation has put in place mechanisms reduce to risks that may result from risks					

Task Control and Financial Performance

9. Task control influences the financial performance of our organization.

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

10. The following are aspects of task control. To what extent do they influence financial performance in your organization? Use a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate, 4= large extent and 5 is to a very large extent

Aspects of task control	1	2	3	4	5
Information and communication					
Internal processes					
Identification of operational issues					
Others (Specify…………..……………..…………………..)					

11. The following statements relate to task control. Show the extent you agree with them with respect to your organization. Use a scale of 1 to 5 where 5= Strongly Agree, 4 = Agree, 3 = neutral/undecided, 2 = Disagree and 1 = Strongly Disagree

Statements on task controls	1	2	3	4	5
The corporations' information and communication channels support complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned.					
Information is the vehicle by which control policies, procedures are introduced and reinforced					
communication enable employees to become aware of management's commitment to internal controls					
Reliable and relevant information from both internal and external sources is communicated to everyone in the organization					
Task controls are implemented thoughtfully, conscientiously and consistently for them to be useful					

Monitoring and Evaluation and Financial Performance

12. Monitoring and evaluation influence the financial performance of our organization

To a very great extent	To a great extent	To a moderate extent	To a little extent	To no extent

13. The following are aspects of monitoring and evaluation. To what extent do they influence the financial performance of your organization? Use a scale of 1 to 5 where 1= no extent, 2= little extent, 3= moderate, 4= large extent and 5 is to a very large extent

Aspects of monitoring and evaluation	1	2	3	4	5
Periodical financial reports					
Reporting standards					
Compliance with regulations					
Others (Specify…………..……………..…………………..)					

14. The following statements relate to monitoring and evaluation. Show the extent you agree with them with respect to your organization. Use a scale of 1 to 5 where 5= Strongly Agree, 4 = Agree, 3 = neutral/undecided, 2 = Disagree and 1 = Strongly Disagree

Statements on monitoring and evaluation	1	2	3	4	5
Monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls					
Monitoring helps in ensuring that all employees are compliant with the internal policies of the business					

Monitoring determines whether internal control is adequately designed, properly executed and effective				
Monitoring provides assurance that the findings of audits and other reviews are promptly determined				
M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run.				
Financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure.				
Financial reporting				

Section B

15. What other information would you like to share about the effect of internal control systems on financial performance of state corporations in Kenya?

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…………………………………………………………………………………………

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16. What do you think should be done to enhance the effect of internal control systems on financial performance of state corporations in Kenya?

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…………………………………………………………………………………………

………………………………………………………………………………………….

THANK YOU!