RELATIONSHIP BETWEEN INTERNAL CONTROLS PRACTICES AND FINANCIAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

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DECLARATION

I, the undersigned, declare that this research project is my original work and has not been submitted to any other college, institution or university for academic credit.

Signature: …………………………… Date: ……………………………

Ibrahim Abdikadir Yahya
D61/81959/2015

This research project has been submitted for examination with our approval as the university supervisor.

Signature: …………………………… Date: ……………………………

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DEDICATION

To my wife Amina Mohamed and to my daughters Muna Ibrahim, Sumeya Ibrahim and my son Hamza Ibrahim
ACKNOWLEDGEMENT

I would like to thank the Almighty God for good health, strength and wisdom He granted me during the entire MBA program that ensured I remained focused and the realization of this dream.

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Finally, I want to acknowledge my beloved wife Amina Mohamed and my two adorable daughters; Muna, Sumeya and my son Hamza for their encouragement and invaluable support who bore my burden while I was away for this noble cause. May God bless you all.
ABBREVIATIONS AND ACRONYMS

**COSO**: Committee of Sponsoring Organizations of the Treadway Commission

**IAS**: International Accounting Standards

**ICT**: Information Communication Technology

**ROA**: Return on Asset

**SPSS**: Statistical Package for Social Sciences
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ABSTRACT

The main objective of the study was to determine relationship between internal control and financial performance of commercial state corporations in Kenya. The study adopted a descriptive design. The target population comprised of 33 commercial state corporations. The study adopted a census and thus the sample size was 33 firms. The study collected primary data using questionnaires. The collected data was analysed using means, standard deviations and regression. The study found out that control environment had p value 0.004 and thus has significant effect on financial performance of commercial state corporations. Risk assessment p=0.011 which is less than 0.05. This that risk assessment has significant effect on performance of commercial banks. Information and communication(p=0.014) which is less than 0.05 and thus it significantly influenced financial performance. Monitoring p=0.009 which is less than 0.05 and thus it significantly influenced financial performance of commercial banks. The study concludes that internal controls significantly influence financial performance. The study recommends that the management team of all commercial state corporations in Kenya should have clearly established risk management department. Policy makers and regulatory authority the Auditor General should come up with formulate sound policies that strengthen internal controls of state corporations.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Finance managers of organizations today are faced with a challenge of efficient, transparent and accountable use of financial resources to maximize the wealth of their firms. These challenges are coupled by an increasing demand of value from investors on the basis of the funds they have invested in an organization (Lin, Wang, Chiou & Huang, 2014). Given the fact the available level of resources are fixed relative to what organizations have, this calls for efficient and effective use in production of goods and services that meet the needs of customers thus maximizing the wealth of shareholders. Thus, organizations have been forced to put in place internal controls as a response to these challenges faced by finance managers as a way of enhancing their financial performance (Feng, Li, McVay & Skaife, 2014).

This study was informed by the Agency Theory, Contingency Theory and the Theory of a Firm. In the Agency Theory, the relationship between the principal and the agent is expounded. However, conflicts of interest usually arise in this relation especially where the actions of the agent are not aligned with what the principal wants (Jensen & Meckling, 1976). Having in place systems of internal controls is one way of minimizing this conflict of interest between the principal and the agent hence performance of an organization. Internal controls in an organization will provided a check and balance on the action of management team. The Contingency Theory on the other hand argues that contingent factors like macro-environments, culture and technology have an influence on the functioning and design of an organization. The theory assumes that no single type of organizational structure can apply to all firms. On this basis, the theory argues that
the ability of an organization to design and apply internal control systems is contingent on the context of an organization that these controls operate (Fisher, 1998). The Theory of the Firm on the other hand suggests that firms exist with a sole objective of making profits from their operations. Thus, all actions undertaken by management should be geared towards profitability of an organization. Without internal controls however, the profit objective of the firm as suggested by this theory cannot be possible (Baumol, 1959 & 1962; Marris, 1964 & Williamson, 1966).

State corporations are organization created by the government to provide specific services to public citizens in an efficient and effective way. Several factors contribute towards establishment of state corporations including the need to protect people from exploitive capitalists, need for government control and the high initial costs required that private investors cannot afford. State corporations are established by specific provisions and Acts passed in parliament. There are different commercial state corporations in different sectors in Kenyan economy including health, banking, insurance, energy and petroleum and transportation (Othman & Ali, 2014). In the recent past, most of these state corporations have faced a number of challenges including increased level of fraud, corruption, collusion and mismanagement that have adversely affected their ability to dispense their mandates. All these challenges directly point to the question on whether state corporations have put in place sound internal controls and how these has influenced their financial performance.

1.1.1 Internal Controls

Internal controls are mechanisms put in place by the board of directors of an organization aimed at providing reasonable assurance with regard to ability of management to meet
the goals and objectives of an organization (Tunji, 2013). Internal controls are defined as measures that an organization has instituted to attain its mission, overall goals and objectives. Internal controls in some cases are seen as check mechanisms to reduce embezzlement of funds, fraud and collusion within an organization. Internal controls can further be defined as procedures that an organization has clearly outlined that aim at increasing reliability in reporting, compliance with established rules and regulations and effective operations. According to the Committee of Sponsoring Organizations of the Treadway Commission COSO (2013), internal controls are seen process that the board of directors of an organization has put in place to reasonably assure stakeholders of the ability of the firm to meet its goals and objectives, offer reliable reporting and comply with established regulations and rules.

In the COSO (2013) framework, five elements of internal control are provided that include the control environment risk assessment, control activities, information and communication and monitoring. Internal controls according to International Accounting Standards (IAS) are categorized into organizational plan, segregating of duties controlling of documents, safeguarding of assets of a business, the level of staff competency, accounting and arithmetic controls, keeping of records, approvals and authorizations, rotation and vacation of duties, automatic and routine checks.

1.1.2 Financial Performance
Performance is defined by Posthuma (2013) as the ability of an organization to efficiently and effectively operate, increase profitability, survive and respond to environmental turbulence. This definition covers two aspects of performance; financial and non-financial. Financial performance is the quantification of the goals and objectives of an
organization into monetary terms. Financial measures determine how healthy an organization is in financial terms. Financial performance provides a basis of industry comparison of the firm with other businesses. Financial performance can be measured in a number of ways as reflected in return on assets, return on investment, return on equity and profitability of the business (Balsam, Jiang & Lu, 2014).

A firm can improve its financial position by instituting measures that reduce wastage of resources. One way of improving performance is reduction in fraud and irregularities by improving internal controls. Shareholders in an organization are always demanding for efficient use of resources to maximize their wealth in an organization (Duh, Chen, Lin & Kuo, 2014).

1.1.3 Internal Controls and Financial Performance

Internal control play an important role as far as financial performance of an organization is concerned. Internal controls provide a check and balance on activities of an organization maximizes the wealth of shareholders. Internal control reduces possibilities of fraud and collusion that would otherwise adversely affect performance of an organization. Internal controls help to detect errors and omissions in their early stages and this improves on performance of an organization (Hermanson, Smith & Stephens, 2012).

Internal control helps an organization in attaining its profit targets while preventing loss of resources of an organization. Internal controls help in safeguarding assets of an organization that can be utilized in generating revenue to the business (Haislip, Peters & Richardson, 2016). Internal controls increases reliability of reporting systems in an organization. In the banking sector, Ondieki (2013) revealed that internal controls had
positive influence on financial performance. In a SACCO subsector, Magara (2013) noted that internal control had direct and significant influence on financial performance.

1.1.4 Commercial State Corporations

According to the Presidential Taskforce on Parasternal Reforms (PTPR) (2013), there are a total of 187 state owned corporations in Kenya which operate under the following categories: financial, regulatory, commercial/manufacturing, tertiary education and training, higher education, training and research, regional development authorities and service corporations. Guyo (2012) emphasized that the SCs in Kenya are regarded as one of the factors that are and have a great potential to facilitate national growth. Out of these SCs, 33 engage in commercial and manufacturing activities (State Corporations Advisory Committee, 2018).

Commercial state corporations do not, in general, depend on exchequer funds to meet their operations except in cases where the corporation is unable to sustain itself on account of persistent poor performance as has been the case with Pyrethrum Board of Kenya, Kenya Meat Commission and Numerical Machining Complex. Commercial state corporations (SCs) in Kenya face a number of challenges that their ability to offer reliable services and therefore financial performance. Some of these issues include increased collusion, corruption and fraud. The escalating cases of corruption have affected performance of SCs. One of the most significantly scandals among SCs is the National Youth Service (NYS) with an estimated fraud of Kshs. 10 billion (Brown, Pott&Wömpener, 2014). These increases cases of fraud and collusion on SCs raises a question of whether enough internal controls have been put in place to deal with this challenge.
1.2 Problem Statement

State Corporations are established to carry out specific services to citizens in a country. They are established by specific legislation of the parliament. State Corporations however face a number of challenges that have affected their ability to carry out their activities. Several Mega scandals have been discovered by the Auditor General among state corporations including the NYS, NSSF, NHIF and KPLs. This increase in corruption has affected the ability of SCs to effectively carry out operations. On the basis of this, the current study seeks to determine whether SCs have put in place enough internal controls (Rendon&Rendon, 2016).

An analysis of financial performance of commercial state corporations reveals an impressive trend. According to the Consolidated National Government Investment report (2013), Commercial State firms made Ksh.29.28 billion in net profits in the 2012/13 financial year setting a new earnings record from which the Treasury earned more than Ksh.16 billion in dividends. This level of performance however is an aggregate of all commercial state corporations. However specific financial performance of some of these SCs is poor and this forms the basis of this study to determine whether internal controls influence financial performance (Zakaria, Nawawi&Salin, 2016).

Several studies have been done on how internal controls influence financial performance. Globally, Rosman, Shafie, Sanusi, Johari and Omar (2016) investigated how internal control systems influenced performance effectiveness. The study established that internal controls influence non-financial performance. The study focussed on NGOs that differ from state corporations. In Nigeria Ejoh and Ejom (2014) conducted a study to determine
how internal control; activities influence financial performance. The study was done in the context of tertiary learning institutions. The findings suggested that internal control activities and financial performance are not significantly related. All these studies however were done in other countries and this may not practically apply in the Kenyan context. This results into contextual gaps.

Locally Mary, Albert and Byaruhanga (2014) did a study on how internal control systems influences financial performance. The findings of the study indicated that internal control systems had positive influence on financial performance. The study focussed on sugarcane out grower companies.Njeri (2014) did a study on how internal controls influenced financial performance in the context of manufacturing firms. The analysed findings indicated that internal control had a positive influence on financial performance. None of these studies focused on commercial state corporations. This results into gaps that the current study seeks to fill. Thus the study sought to determine the effect of internal control on financial performance of commercial state corporations in Kenya.

1.3 Research Objectives

To examine the relationship between internal control and financial performance of commercial state corporations in Kenya

1.4 Value of the Study

The study would be of great benefit to theory, practice and policy. The findings of the study would add to theory on internal controls and how they influence organizational performance. The study would provide a basis of carrying out future studies among scholars and academicians. The study would expand literature and facilitate other studies
in future.

In practice, the study would provide meaningful evidence of how internal controls affect performance of an organization. The study would strengthen demutualization decision making ability of the management team in state corporations seeking to improve their financial performance. This would generally improve performance of companies.

Policy makers including the Auditor General would rely on the findings of this study to advice commercial state corporations on the best way to improve their internal controls and how this would influence their performance. This would help these institutions to gain competitive advantage and therefore improve their performance. This would also improve on governance and financial viability of the successfully demutualized organizations.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter presents literature on internal control and how they influence financial performance. The theories informing the study are also presented. The factors influencing financial performance of state commercial corporations are indicated. The empirical studies on internal control and financial performance are also reviewed.

2.2 Theoretical Review

2.2.1 Agency Theory
This theory was formulated by Jensen and Meckling (1976) to illustrate the relationship existing between the principal and an agent. An agent acts on behalf of the principal thuds all actions undertaken should be influenced and controlled by the principal. This relationship between the principal and the agent is the basis of corporate governance in organizations. In corporate governance, there exists relationship between shareholders, the management team and the board of directors. Shareholders are principals while the management team is the agent. In this relationship, threw management has only objective of maximizing the wealth of shareholders. However, management of an organization may undertake actions that are not in line with shareholders, a board of directors is put in place by shareholders to monitor and control actions of the management team (Sial, Talib, Ashkanani&Alam, 2015).

Thus, the board of directors helps in reducing conflict of interest that arises from the principal agent relationship. One way through which board of directors effectively monitors and control action of the management team (agents) is by ensuring that all
actions undertaken are in line with the goals of shareholders. Demutualization is one of these activities that a mutually owned business can undertake. Demutualization helps in improving corporate governance of an organization thus reducing conflict of interest between parties (Sarpong, 2017). This has bearing influence on performance of demutualized organizations.

2.2.2 Contingency Theory
This theory mainly focuses on behavioural issues and aspect of an organization in trying to explain how contingent like technologies, culture and the forces of both internal and external environment affect the functioning and design of an organization (Woods, 2009). The theory assumes that there is no single type of organization structure is suitable to all firms and organizations (Skaife, Veenman&Wangerin, 2013), but technology, relative sizes, changes in environment and the characteristics of the organizations determine the level of effectiveness.

The theory offers an explanation of the link existing between effectiveness of the systems of internal controls in view of the changing contexts besides performance of an organization. In simpler terms, the usage and type of internal control systems is contingent upon the settings and contexts of the organization that these controls effectively operate (Fisher, 1998).

This theory is important in explaining the link between the composition of internal controls and performance, in particular, the efficiency and reliability of the financial reporting system. Cadez and Guilding(2008) revealed that internal auditors with specialization in internal auditing will greatly realize effectiveness in their operations
through the internal controls in place. The theory is relevant since it explains how best organizations can strengthen their internal controls for better performance.

2.2.3 The Theory of a Firm

This origin of this theory is contributed by Baumol (1959 & 1962), Marris (1964) and Williamson (1966). This theory is founded in neoclassical economics and it states that firms exist and make decisions that improve their profitability. In the market, firms interact with others to price product and allocate resources so as to maximize their profits. According to this theory, the behaviour of any firm is deemed to be driven by ability to maximize profits.

This theory forms basis of making decisions with regard to allocation of resources, techniques of production and volume of production. The theory of the firm has however been criticized on the basis that it focused on broad industries. As such, it could not explain why companies produce goods and service they do and what motivates the choice of firms in allocation of resources during the production process (Çal& Lambkin, 2017).

This theory is relevant to the study because it supports the decisions (putting in place marketing strategies) that firms make aimed at improving performance. The theory shows that firms allocate resources in most viable avenues of increasing profitability. One way that firm enhances their performance ids through allocation of resources in demutualization that drive performance. Thus, the theory links demutualization and performance of security exchanges.
2.3 Determinants of Financial Performance of Commercial State Corporations

This section looks at factors affecting financial performance of commercial state corporations. Specifically, the sections looks at how accountability, liquidity and internal controls influence financial performance of commercial state corporations. Each of these sections is discussed in details in subsequent sections.

2.3.1 Accountability

Managers require constant flow of financial information and reports to help them make sound decisions (Hayes, et al, 2005). It is through this reporting that managers are able to ensure resources are used in a way that is accountable. Information from financial reports should be clear for all stakeholders to understand (Bauer, 2016). This is the whole idea behind accountability.

2.3.2 Liquidity

Liquidity is the ability of the firm to meet short term obligations as and when they fall due using the available assets. Liquidity involves risk, such that too much liquidity would results into tied up capital that would otherwise have been utilized in making profitable investment projects that maximize the wealth of shareholders. Current ratio is a as a standard measure of liquidity in organization (Mock & Turner, 2013).

2.3.3 Internal Controls

Internal controls are procedures put in place by an organization to reduce fraud. An internal control system is usually set up by board of directors of an organization. Internal controls therefore complement the oversight role of the board of directors in an organization. Internal controls play an important role in an organization by reducing

An organization puts in place internal controls to safeguard the assets which reduce misuse and wastage. Without internal controls, management of an organization may be motivated to pursue their personal interests at the expense of organizational goals. This would bring in conflicts of interest that affect the ability of an organization to meet financial goals and objectives. Internal controls improve efficiency and effectiveness of an organization which would translate to financial performance (Lam, 2014).

2.4 Empirical Literature Review

Abdi (2015) investigated how internal controls impacted on financial performance among private banks in Mogadishu. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives were to assess the functionality of internal control systems in Mogadishu private banks and to examine financial performance of private banks in Mogadishu. The study was based on 33 target population especially Accountants, finance directors, chief cashiers, internal auditors and managers of private banks in Mogadishu. Descriptive analysis was used. It administers questionnaire as a research instrument. The findings of this study reveal that majority of the private banks in Mogadishu have enough cash to meet its intended goals. Also there is a clear separation of duties. This study suggests that the internal auditors perform their duties fast, efficient and reliable.

Mwakimasinde, Odhiambo and Byaruhanga (2014) sought to determine how internal controls influenced financial performance. The study was done in sugar cane growing
firms in Kenyan context. The design adopted was correlational. The study covered all out
grower companies of sugar cane. Data was collected with the aid of questionnaire hence
it was primary in nature. Additional data was sought from published accounts of the
respective companies which was secondary in nature. Key informants that included
internal audit heads and finance managers were involved in answering the formulated
interview guides. In total, 9 companies were covered. The findings indicated that internal
controls systems have direct and significant influence on financial performance of the
studied firms.

Using a case of SMEs in Kenya, Nyakundi, Nyamita and Tinega (2014) analysed how
internal controls systems influence their financial performance. ROI was used as a proxy
for financial performance. The techniques used for sampling included stratified and
sample random methods. The design adopted was mixed methods with cross sectional
design. Questionnaires and published statements were used in collection of data. The
study established that any change in internal control is directly linked with financial
performance of the firms. It was revealed that internal control systems influence financial
performance significantly.

Hamza, Mutala and Antwi (2015) studied how the practices of managing cash influenced
financial performance. The study was done in the SME context, in Ghana. The design
adopted was descriptive. A total of 1000 owners of SMEs were targeted. Through
stratification of this population and randomly selecting respondents, 300 SMEs were
established as the study sample size. The findings indicated that cash management
practices positively and significantly influenced financial performance.
Wanjala (2015) sought to determine how effective management of cash influenced the growth of SACCOs in Kenya. The variables of the study were cash budget and cash controls. The study targeted 169 owners of SACCOs in the transport sector. The design adopted was descriptive. The study established that management of cash significantly influenced performance of the studied SACCOs.

In South Africa, Avika and Hari (2014) studied the challenges in effective management of cash among small firms. The design adopted was descriptive and cross sectional. Data was collected with the aid of questionnaires. The findings showed that the knowledge on cash management significantly predicted the management of cash flows. The study further revealed that cash management influences performance of the studied firms.

In Ghana, Ibrahim, Diibuzie and Abubakari (2017) sought to determine how systems of internal controls influenced financial performance. The study covered 5 health centres. The sample size comprised of 50 respondents. The findings indicated that internal controls positively influence performance. Among tertiary institutions in Nigeria, Adetula, Balogun, Uwajeh and Owolabi (2016) looked at how internal controls affected performance. Data was collected through primary source using questionnaire. The study established that internal controls influence performance of the studied institutions.

While using a case of public water companies, Njiru (2016) looked at how internal controls influenced performance. The study used a descriptive survey study research design. The study conducted a purposive sampling of 60 chief internal auditors. The analysed findings indicated that internal control systems improved financial performance.
of an organization by providing a check and balance. Internal controls had positive and significant influence on performance of organizations.

2.5 Conceptual Framework

Figure 2.1 shows the conceptual framework of the study.

Figure 2.1: Conceptual Framework
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods used to achieve the objectives of the study. The chapter specifically presents the research design, the population and methods of sampling. The chapter also looks at data collection and analysis methods.

3.2 Research Design

A research design is a structure that guides the study. It is a blue print used in achieving objectives of the study. The study adopted a descriptive research design. This design was appropriate in exploring internal controls have affected financial performance of commercial state corporations in Kenyan context.

3.3 Population of the Study

Population is a group of elements, items or people that are brought together by common attributes which are of interest to a researcher. The population of the study comprised of 33 commercial state corporations (State Corporations Advisory Committee, 2018). These shall form the population of the study.

Since the population is so small, census was employed and thus the sample size was 33 commercial state corporations (Appendix I). Yin (2017) recommended that population elements of less than 200 call for use of a census. The use of a census helped the researcher to collected detailed information so as to achieve the objectives.
3.4 Data Collection

The data used for analysis was collected with the help of questionnaires. Some of the questions were structured using a five-point Likert scale. Structuring questionnaires allowed the process of analysis easier. The researcher administered questionnaires by self. Distribution of questionnaires was done on a drop and pick latter method. The researcher obtained contact details of respondents at the point of dropping questionnaires. An agreed grace period of a week was established for respondents to effectively fill the questionnaires. The researcher did a follow up to respond to any issues and challenges encountered by respondents while handling questionnaires.

3.5 Data Analysis

Data analysis commenced by cleaning of the data to remove incomplete questionnaires. One data has been cleaned; the researcher was code it into SPSS software. The findings were analysed descriptively and inferentially, including the use of means, standard deviations and regression analysis.

3.5.1 Analytical Model

The adopted regression model took the following firm;

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \]

Whereby

- \( Y \) = Financial Performance (ROA=Net Income/Total Assets)
- \( X_1 \) = Control Environment was measured by policies implemented
- \( X_2 \) = Risk Assessment was measured by rate of return
- \( X_3 \) = Information and Communication was measured by the implemented systems
X4 = Monitoring was measured by expected value vs. projected value

\[ \varepsilon = \text{Error Term} \]

\[ \beta_0 = \text{Constant}; \beta_1, \beta_2, \beta_3, \beta_4 \text{ and } \beta_5 \text{ are coefficients of the relationship between internal controls and financial performance of commercial state corporations in Kenya and } \varepsilon = \text{Error Term} \]

### 3.5.2 Diagnostic Tests

The study carried out normality, autocorrelation, Heteroskedasticity and multicollinearity tests to ensure that the data set does not violate regression assumptions. Normality was tested by Skewness and Kurtosis. Values of between -3 or +3 indicates that the data is normally distributed (Kothari).

Autocorrelation was detected using Durbin Watson Statistics. Values of -2 or +2 suggest that the data set has no autocorrelation. The researcher also used Scatter plots to test for Heteroskedasticity. Data points on scatter plots with clearly established patterns suggested that the data set has Heteroskedasticity. Multicollinearity was detected using Variance of Inflation Factor (VIF). In essence, VIF values of between 1 and 10 suggest that there is no multicollinearity in the data set.

### 3.5.2 Test of Significance

The study used the coefficient of determination R square to determine how change in financial performance of commercial state corporations is explained by the change of internal controls. F test was used to determine the overall significance of the model in the Analysis of Variance (ANOVA) Table.

This was achieved by comparing the value of F calculated in the ANOVA Table and that
F critical from the F Table. T-test was used to determine individual significance of the predictor variables of the study. The interpretation of p values was done at 5% level of significance.
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

In this chapter, the researcher presents the findings of the analysis on the collected primary data. Data used in the study was primary. The collected data was coded into SPSS and the findings were analysed using descriptive and inferential statistics.

4.2 Response Rate and General Information

A total number of 33 questionnaires were distributed to commercial and state corporations. Out of this, 29 of them were completely filled and returned to the researcher. This gave a response rate of 87.9%. The response rate was consisted with Babbie (2015) who indicated that for excellent analysis, the response rate should be over 70%.

The researcher sought to determine the gender of respondents as shown in Table 4.1.

Table 4.1: Gender of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>19</td>
<td>65.5</td>
</tr>
<tr>
<td>Female</td>
<td>10</td>
<td>34.5</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100</td>
</tr>
</tbody>
</table>

Source; Research Data (2018)

The findings on gender of respondents shown in Table 4.1 indicate that 65.5% were male while 34.5% were female. This shows that there was a balance in gender distribution which resulted into diversity in opinions expressed.

Table 4.2 presents information of the level of education of respondents.
Table 4.2: Level of Education

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>7</td>
<td>24.1</td>
</tr>
<tr>
<td>Undergraduate degree</td>
<td>13</td>
<td>44.8</td>
</tr>
<tr>
<td>Post graduate degree</td>
<td>9</td>
<td>31.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2018)

As indicated in Table 4.2, most of the respondents 44.8% had undergraduate degrees, 31.1% had post graduate degrees while 24.1% had diplomas. This shows that respondents of the study were educated and therefore could handle questionnaires with ease.

The findings on length of service of the respondents are shown in Table 4.3.

Table 4.3: Length of Service

<table>
<thead>
<tr>
<th>Service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>5</td>
<td>17.2</td>
</tr>
<tr>
<td>3-7 Years</td>
<td>6</td>
<td>20.7</td>
</tr>
<tr>
<td>7-11 Years</td>
<td>11</td>
<td>37.9</td>
</tr>
<tr>
<td>Over 11 Years</td>
<td>7</td>
<td>24.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2018)

As indicated in Table 4.3, most of the respondents 37.9% had worked for 7-11 years, 24.2% for over 11 years, 20.7% for 3-7 years and 17.2% for less than 3 years. This shows that respondents of the study had worked in their organization for a relatively longer period of time and thus they were knowledgeable.

4.3 Internal Controls

Several internal controls were carefully identified by the researcher and respondents were asked to indicate how they were applicable in their organizations. A five point Likert scale was used where 1=strongly disagree and 5=strongly agree. The first aspect of the
internal controls was the control environment. The findings are shown in Table 4.4.

**Table 4.4: Control Environment**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the activities in my organization are guided by the core value of integrity</td>
<td>3.63</td>
<td>0.872</td>
</tr>
<tr>
<td>Ethical values are inculcated among all employees in my organization</td>
<td>3.58</td>
<td>0.762</td>
</tr>
<tr>
<td>All employees in my organization are competent in carrying out their duties</td>
<td>3.87</td>
<td>0.786</td>
</tr>
<tr>
<td>Skilled staff help in administering the internal controls in my organization</td>
<td>3.77</td>
<td>0.806</td>
</tr>
<tr>
<td>The top management readily avail resources for strengthening internal controls in my organization</td>
<td>3.72</td>
<td>0.642</td>
</tr>
<tr>
<td><strong>Average Mean and Standard Deviation</strong></td>
<td>3.71</td>
<td>0.773</td>
</tr>
</tbody>
</table>

**Source: Research Data (2018)**

From Table 4.4, most of the respondents agreed (M=3.87) that all employees in their organization were competent in carrying out their duties. Respondents also agreed (M=3.77) that skilled staff helped in administering the internal controls in their organization. Other respondents also agreed (M=3.72) that the top management readily availed resources for strengthening internal controls in their organization. Respondents further agreed that all the activities in their organization were guided by the core value of integrity (M=3.63) and that ethical values were inculcated among all employees in their organization (M=3.58). All these statements are supported by low values of standard deviations.

Table 4.5 presents the findings on risk assessment as an internal control and how it influences financial performance.
<table>
<thead>
<tr>
<th>Table 4.5: Risk Assessment</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a risk management department in organization</td>
<td>3.43</td>
<td>0.873</td>
</tr>
<tr>
<td>The risk management department work closely with an internal audit department</td>
<td>3.48</td>
<td>0.776</td>
</tr>
<tr>
<td>All inherent risks are carefully identified in my organization</td>
<td>3.63</td>
<td>0.927</td>
</tr>
<tr>
<td>The identified risks are carefully evaluated by competent staff</td>
<td>3.72</td>
<td>0.763</td>
</tr>
<tr>
<td>The responses to the evaluated risk are timely</td>
<td>3.67</td>
<td>0.863</td>
</tr>
<tr>
<td>There is a clear stated risk tolerance level in my organization</td>
<td>3.79</td>
<td>0.873</td>
</tr>
<tr>
<td><strong>Average Mean and Standard Deviation</strong></td>
<td><strong>3.62</strong></td>
<td><strong>0.845</strong></td>
</tr>
</tbody>
</table>

Source; Research Data (2018)

As indicated in Table 4.5, majority of respondents agreed (M=3.79) that there was a clearly stated risk tolerance level in their organization. Respondents of the study agreed (M=3.72) that the identified risks were carefully evaluated by competent staff and that the responses to the evaluated risk were timely (M=3.67) besides all inherent risks being carefully identified (M=3.63). However, on whether risk management department worked closely with an internal audit department (M=3.48) or there was a risk management department in organization (M=3.43), the values of mean are less than 3.5. This shows that respondents were neutral on this statement and thus were moderately practiced in the studied organizations. On average, respondents agreed (M=3.62) that risk assessment was in place in their organization and this affected financial performance.

The findings on how information and communication as another aspect of internal control are shown in Table 4.6.
Table 4.6: Information and Communication Statements

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is timely flow of information within all sections in my organization</td>
<td>3.75</td>
<td>0.997</td>
</tr>
<tr>
<td>All pertinent financial information is well captured by financial systems in my organization</td>
<td>3.83</td>
<td>0.673</td>
</tr>
<tr>
<td>Regular feedback is provided to employees from the management in all the sections in my organization</td>
<td>3.77</td>
<td>0.862</td>
</tr>
<tr>
<td>Both financial and non-financial information is well captured by systems in my organization</td>
<td>3.78</td>
<td>1.006</td>
</tr>
<tr>
<td>The channels of communication in my organization are appropriate</td>
<td>3.87</td>
<td>0.957</td>
</tr>
<tr>
<td>Staff are encouraged to report suspected misuse of financial resources</td>
<td>3.49</td>
<td>0.866</td>
</tr>
</tbody>
</table>

**Average Mean and Standard Deviation**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Mean and Standard Deviation</td>
<td>3.74</td>
<td>0.893</td>
</tr>
</tbody>
</table>

**Source: Research Data (2018)**

From Table 4.6, the study established that the channels of communication in most organizations were appropriate (M=3.87) and all pertinent financial information was well captured by financial systems in most organizations (M=3.83). The study further revealed that both financial and non-financial information was well captured by systems in most organizations (M=3.78), regular feedback was provided to employees from the management in all the sections in most organizations (M=3.77) and that there was timely flow of information within all sections in most organizations (M=3.75). On average, information and communication as an internal control (M=3.74) was largely practiced in most of the studied organization and this affected financial outcomes.

The findings on monitoring as another aspect of internal controls are shown in Table 4.7.
From the findings in Table 4.7, monitoring of the internal controls safeguarded the security of the systems (M=4.08), reports for improvement were generated at end of the monitoring process (M=3.99) and the effectiveness of internal control systems was monitored regularly (M=3.97). The study established that the quality of the internal controls was monitored on a regular basis (M=3.86) and that the monitoring of internal controls was done by competent staff (M=3.78). The average mean was 3.93 showing that generally, the study organization embraced monitoring as way of ensuring performance of their internal controls.

The study sought to determine the other internal controls that the organizations practiced. From the findings, most of the respondents indicated there was segregation of duties as one of the internal controls. There was also an internal audit department that evaluated the quality of financial information and systems of the organization. On the challenges faced in implementation of internal controls, most of the respondents indicated...
inadequacy of financial resources to exploit the potential benefits of technology. With regard to the best way that internal controls could be improved, respondents indicated that need for top management to increase their commitment and allocation of resources.

4.4 Financial Performance

Financial performance was the dependent variable in the study. The findings on the same are indicated in this section.

**Table 4.8: Financial Performance**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>My firm has timely met its current obligations</td>
<td>3.65</td>
<td>0.874</td>
</tr>
<tr>
<td>Financial reporting is done on a timely basis</td>
<td>4.09</td>
<td>0.484</td>
</tr>
<tr>
<td>There has been improvement in return on assets over the last five years</td>
<td>3.75</td>
<td>0.763</td>
</tr>
</tbody>
</table>

*Source: Research Data (2018)*

The study established that financial reporting was done on a timely basis (M=4.09), ROA has improved over the past five years (M=3.75) and that the firm timely met its current obligations (M=3.65). Thus, internal controls have had an influence on financial performance of the studied organizations.

4.5 Regression Results

The Model Summary of the regression model is indicated in Table 4.9

**Table 4.9: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.760,a</td>
<td>.577</td>
<td>.509</td>
<td>1.91505</td>
</tr>
</tbody>
</table>

*Source: Research Data (2018)*

Table 4.9 shows an R of 0.760, thus internal controls and financial performance are strongly correlated. The value of R² is 0.577 signifying that internal controls explain 57.7% of change in financial performance. There are other factors that cover the
rest 42.3% of changes in financial performance, which the current study did not cover.

The Analysis of Variance at 5% level of significance is indicated in Table 4.10.

Table 4.10: ANOVA

<table>
<thead>
<tr>
<th>Source; Research Data (2018)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>125.115</td>
<td>4</td>
<td>31.279</td>
<td>8.188</td>
</tr>
<tr>
<td>Residual</td>
<td>91.685</td>
<td>24</td>
<td>3.820</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>216.800</td>
<td>28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the findings, F calculated is 8.529 while F critical $F_{(4, 24)}$ is 2.76. As the value of F calculated is greater than F critical (8.529>2.76), this clearly indicates that the overall regression model was significant. This is further supported by p value 0.000<0.05.

The regression Coefficients of the Model are indicated in Table 4.11.

Table 4.11: Regression Coefficients

<table>
<thead>
<tr>
<th>Source; Research Data (2018)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td>3.981</td>
<td>1.535</td>
</tr>
<tr>
<td>Control Environment</td>
<td></td>
<td>.232</td>
<td>.078</td>
</tr>
<tr>
<td>Risk assessment Information</td>
<td></td>
<td>.028</td>
<td>.013</td>
</tr>
<tr>
<td>Monitoring</td>
<td></td>
<td>.307</td>
<td>.116</td>
</tr>
</tbody>
</table>

The established regression equation becomes;
\[ Y = 3.981 + 0.232X_1 + 0.028X_2 + 0.307X_3 + 0.031X_4 \]

Whereby:

\[ Y = \text{Financial Performance} \]

\[ \beta_0 = \text{constant} \]

\[ \beta_1, \beta_2, \beta_3, \beta_4 = \text{coefficients of the determinants of credit risk management} \]

\[ X_1 = \text{Control Environment} \]

\[ X_2 = \text{Risk Assessment} \]

\[ X_3 = \text{Information and Communication} \]

\[ X_4 = \text{Monitoring} \]

Thus, holding other factors constant, financial performance of commercial state corporations would be at 3.981. Control environment had p value 0.004 which is less than 0.05, showing that it has significant effect on financial performance of commercial state corporations. Risk assessment p=0.011 which is less than 0.05. This that risk assessment has significant effect on performance of commercial banks. Information and communication (p=0.014) which is less than 0.05 and thus it significantly influenced financial performance. Monitoring p=0.009 which is less than 0.05 and thus it significantly influenced financial performance of commercial banks.
4.6 Research Findings

From descriptive analysis, the study documents that internal control environment (M=3.71), risk assessment (M=3.62), information and communication (M=3.74) and monitoring (M=3.93) were key internal controls in place among the studied commercial state corporations. When ranked, monitoring was the most significant internal control followed by information and communication, internal control environment and lastly risk assessment. In general, it can be inferred that the studied companies had internal controls and this possibly influenced financial performance. Without these internal controls, Lam(2014) argues that the management of an organization may be motivated to pursue their personal interests at the expense of organizational goals and this would bring in conflicts of interest that affect the ability of an organization to meet financial goals and objectives. Similarly, Pizzini, et al. (2014) indicated that internal controls play an important role in an organization by reducing collusion and fraud that improves financial performance.

From regression results, at 5% significance level, control environment had p value 0.004 which is less than 0.05, showing that it has significant effect on financial performance of commercial state corporations. Rosman et al (2016) investigated how internal control systems influenced performance effectiveness and established that internal controls influence non-financial performance. Risk assessment p=0.011 which is less than 0.05. This that risk assessment has significant effect on performance of commercial banks. The finding contradicts Ejoh and Ejom (2014) who conducted a study to determine how internal control; activities influence financial performance and suggested that internal control activities and financial performance are not significantly related.
Information and communication (p=0.014) which is less than 0.05 and thus it significantly influenced financial performance. Mary et al. (2014) did a study on how internal control systems influences financial performance and indicated that internal control systems had positive influence on financial performance. Monitoring p=0.009 which is less than 0.05 and thus it significantly influenced financial performance of commercial banks. Njeri (2014) did a study on how internal controls influenced financial performance in the context of manufacturing firms and established that internal control had a positive influence on financial performance.

In general, it can be inferred that internal controls systems have direct and significant influence on financial performance. This is in line with Mwakimasinde et al. (2014) who sought to determine how internal controls influenced financial performance and indicated that internal controls systems have direct and significant influence on financial performance of the studied firms. Nyakundi et al. (2014) analysed how internal controls systems influence their financial performance and found out that internal control systems influence financial performance significantly. Njiru (2016) looked at how internal controls influenced performance and revealed that internal controls had positive and significant influence on performance of organizations.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter details a summary of the findings based on objectives. The conclusions are also presented as per the findings. The recommendations for policy and practice are clearly set out. The areas for further studies are also well brought out.

5.2 Summary of the Findings

The study sought to determine the effect of internal control and financial performance of commercial state corporations in Kenya. On control environment, most of the respondents agreed that all employees in their organization were competent in carrying out their duties. Respondents also agreed that skilled staff helped in administering the internal controls in their organization. Other respondents also agreed that the top management readily availed resources for strengthening internal controls in their organization. The study established that control environment had significant influence on financial performance.

With regard to risk assessment, majority of respondents agreed that there was a clearly stated risk tolerance level in their organization. Respondents of the study agreed that the identified risks were carefully evaluated by competent staff and that the responses to the evaluated risk were timely besides all inherent risks being carefully identified. It was revealed that risk assessment had significant influence on financial performance.

In view of information and communication, the study established that the channels of communication in most organizations were appropriate and all pertinent financial information was well captured by financial systems in most organizations. The study
further revealed that both financial and non-financial information was well captured by systems in most organizations, regular feedback was provided to employees from the management in all the sections in most organizations and that there was timely flow of information within all sections in most organizations. The study found out that information and communication had significant effect on financial performance.

The study found out that monitoring of the internal controls safeguarded the security of the systems, reports for improvement were generated at end of the monitoring process and the effectiveness of internal control systems was monitored regularly. The study established that the quality of the internal controls was monitored on a regular basis and that the monitoring of internal controls was done by competent staff. Monitoring significantly influenced financial performance.

5.3 Conclusion
The study concludes that control environment has significant influence on financial performance. All employees in their organization were competent in carrying out their duties. Skilled staff helped in administering the internal controls in their organization. The top management readily availed resources for strengthening internal controls in their organization.

The study further concludes that risk assessment has significant influence on financial performance. There was a clearly stated risk tolerance level in their organization. The identified risks were carefully evaluated by competent staff and that the responses to the evaluated risk were timely besides all inherent risks being carefully identified.

The study also concludes that information and communication has significant effect on financial
performance. The channels of communication in most organizations were appropriate and all pertinent financial information was well captured by financial systems in most organizations. Both financial and non-financial information was well captured by systems in most organizations, regular feedback was provided to employees from the management in all the sections in most organizations and that there was timely flow of information within all sections in most organizations.

The study concludes that monitoring significantly influences financial performance. Monitoring of the internal controls safeguard the security of the systems, reports for improvement were generated at end of the monitoring process and the effectiveness of internal control systems was monitored regularly. The quality of the internal controls was monitored on a regular basis and that the monitoring of internal controls was done by competent staff.

5.4 Recommendations

The study recommends that the management team of all commercial state corporations in Kenya should have clearly established risk management department. These risk management departments should work closely with an internal audit department. There is also need for improvement on control environment, risk assessment, information and communication and the monitoring systems of all the commercial and state corporations.

Policy makers and regulatory authority the Auditor General should come up with formulate sound policies that strengthen internal controls of state corporations. By strengthening the internal controls of commercial state corporations, their financial performance would improve and thus overall growth of the economy as a whole.
5.5 Suggestions for Further Studies

The current study was limited to control environment, risk assessment, information and communication and monitoring as indicators of internal control. However, internal control is a wide concept that a number of activities which future studies should focus on including segregation of duties and internal auditing. From regression results, the four identified variables explained 57.7% change in financial performance. Thus, future studies should be carried out focusing on other factors not covered in the current study.
REFERENCES


Water Companies In Kenya (Doctoral dissertation, KCA University).


APPENDIX I: QUESTIONNAIRE

Kindly take time and fill in this questionnaire on the EFFECT OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA. Note that any information you give will only be used for academic purpose.

SECTION A: GENERAL INFORMATION

1. What of your gender?

Male ( ) Female ( )

2. What your highest level of education?

Diploma ( ) Undergraduate degree ( ) Post graduate degree ( ) other ( )

3. How long have you worked with your current organization?

Less than 3 years ( ) 3-7 Years ( ) 7-11 Years ( ) Over 11 Years ( )

SECTION B: INTERNAL CONTROLS

4. Below are several internal controls that are put in place in all organization. Kindly indicate the extent which each of them are applicable in your organization and they influence financial performance. Use a five point Likert scale where 1=strongly disagree and 5=strongly agree.
<table>
<thead>
<tr>
<th>CONTROL ENVIRONMENT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the activities in my organization are guided by the core value of integrity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethical values are inculcated among all employees in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All employees in my organization are competent in carrying out their duties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled staff help in administering the internal controls in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The top management readily avail resources for strengthening internal controls in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RISK ASSESSMENT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a risk management department in organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The risk management department work closely with an internal audit department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All inherent risks are carefully identified in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The identified risks are carefully evaluated by competent staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The responses to the evaluated risk are timely</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is a clear stated risk tolerance level in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INFORMATION AND COMMUNICATION</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is timely flow of information within all sections in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All pertinent financial information is well captured by financial systems in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular feedback is provided to employees from the management in all the sections in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Both financial and non-financial information is well captured by systems in my organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The channels of communication in my organization are appropriate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff are encouraged to report suspected misuse of financial resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MONITORING</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The quality of the internal controls are monitored on as regular basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The effectiveness of internal control systems are monitored regularly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monitoring of internal controls is done by competent staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monitoring of the internal controls safeguard the security of the systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reports for improvement are generated at end of the monitoring process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Kindly identify other internal controls that your organization has put in?
6. What challenges does your organization face in implementing and strengthening its internal controls?


7. How best can your organization improve on its internal controls?


SECTION C: FINANCIAL PERFORMANCE

8. Below are several statements on performance that are put in place in all organization. Kindly indicate the extent which each of them are applicable in your organization. Use a five point Likert scale where 1=strongly disagree and 5=strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>My firm has timely met its current obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial reporting is done on a timely basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There has been improvement in return on assets over the last five years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU
APPENDIX II: COMMERCIAL STATE CORPORATIONS IN KENYA

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agro-Chemicals and Food Company</td>
</tr>
<tr>
<td>2</td>
<td>Chemelil Sugar Company</td>
</tr>
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<td>3</td>
<td>East African Portland Cement Company</td>
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<td>Jomo Kenyatta Foundation</td>
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<td>6</td>
<td>Kenya Airports Authority</td>
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<td>7</td>
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<td>8</td>
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<td>10</td>
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<td>Kenya Ports Authority</td>
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<td>16. Kenya Safari Lodges and Hotels</td>
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<td>17. Kenya Seed Company Limited</td>
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<td>18. Kenya Wine Agencies</td>
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<td>19. Kenyatta International Convention Center</td>
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<td>20. National Cereals and Produce Board</td>
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<td>21. National Housing Corporation</td>
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<td>22. National Oil Corporation of Kenya</td>
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<td>23. National Water Conservation and Pipeline Corporation</td>
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<td>24. Numerical Machining Complex</td>
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<td>25. Nzoia Sugar Company</td>
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<td>26. Postal Corporation of Kenya</td>
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<td>28. School Equipment Production Unit</td>
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<td>29. South Nyanza Sugar Company</td>
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<td>30. Telkom Kenya Limited</td>
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<tr>
<td>31. University of Nairobi Enterprises and Services Limited</td>
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<td>32.</td>
<td>New Kenya Co-operative Creameries Ltd</td>
</tr>
<tr>
<td>33.</td>
<td>Kenya Electricity Transmission Company</td>
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</table>

Source: State Corporations Advisory Committee (2018)