THE EFECTS OF INTERNAL CONTROLS ON THE FINANCIAL PERFORMANCE OF PARASTATALS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented at any university or institution of higher learning or academic purposes

Signature…………………………...Date…11/06/2022…………………………………

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This research project has been submitted for examination with my approval as the University supervisor

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ACKNOWLEDMENT

DEDICATION

I dedicate this project to my father, Johnson Nyangoya Nyagemi and my mother Martha Moraa Oyugi

without whom their support and prayers this project would not have been completed.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

GoK – Government of Kenya

IC's – Internal Controls

IMF- International Monetary Fund

ROI- Return on Investment

ROA- Return on Asset

COSO- Committee of Sponsoring Organizations

SME-Small and Medium Enterprises

SCs- State Corporations

ABASTRACT

The purpose of the study was to look into the impact of internal control systems on the financial performance of Kenyan state enterprises that fall under the authority of the national treasury. Internal control systems were the study's independent variable, while financial success was the dependent variable. It used a descriptive research method. All five of Kenya's state-owned sugar firms were represented in the population. The study used primary data obtained using a standardized questionnaire, which was processed on SPSS version 22 using descriptive and inferential statistics.

Senior management workers in several departments of the organization, such as accounting, human resource, procurement, and security, were the target responses. The information was gathered and analyzed from 112 respondents from the target population. 101 respondents (90%) completed the questionnaire correctly, whereas 11 respondents (10%) did not complete the form correctly. The R-square value for the model summary was 0.520, indicating that the predictor variables used for this study explain 52 percent of variations in the dependent variable. Internal control systems have a positive substantial effect on the financial performance of state-owned enterprises in Kenya, according to the study. The study stated that, in order to manage its risks, the company has to ensure that risks are assessed in relation to changes in the operating environment, based on the risk assessment. Furthermore, the study found that the organization has established a positive working connection among employees, that they are dedicated to their duties, that all employees have work schedules and thus no employment conflicts, and that there is a mechanism in place to check regular attendance of employees. According to the report, management should constantly put in place procedures that allow it to recognize risks that could jeopardize the company's financial goals.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

ICs are protections put in place by a company to ensure that its goals, missions, and objectivesare

met. (Brennan & Solomon2008). They are policies and procedures that protect a company's assets,

ensure accurate financial reporting, and improve compliance with laws and regulations in order to run

a successful and efficient business. They also enhance a company's internal and external

communication processes, as well as procedures for handling funds received and expended by the

company, preparing appropriate and timely financial reports for board members and officers,

conducting annual audits of the company's financial statements, and keeping inventory records of real

and other properties and their locations (OECD, 2007). Firms must summarize accounting information

data disclosure fairly.

The Agency Theory, Contingency Theory, and Firm Theory all influenced this research. The link

between the primary and the agent is explored in Agency Theory. However, conflicts of interest are

common in this relationship, especially when the agent's activities are not in line with the principal's

desires (Jensen &Meckling, 1976). Internal control systems are one technique to reduce the conflict of

interest between the principal and the agent, and so improve an organization's performance. Internal

controls at a company give a check and balance on the management team's actions. The Contingency

Theory, on the other hand, claims that external elements like as macro-environments, culture, and

technology have an impact on anorganization's functioning and design. According to the principle, no

single organizational structure can be applied to all businesses. The ability of an organization to

develop and

implement internal control systems is dependent on the context in which the controls are implemented (Fisher, 1998). The Theory of the Firm, on the other hand, proposes that businessesexist solely to profit from their operations. As a result, all management actions should be aimed towards increasing an organization's profitability. However, without internal controls, the firm's profit goal, as proposed by this theory, will be impossible to achieve (Baumol, 1959 & 1962; Marris, 1964& Williamson, 1966). The Stakeholder Theory fairly blends enterprises' interestsand societal effects, emphasizing that enterprises should bear equivalent obligations for employees, consumers, communities, and regional economic development. The firm will assume full social responsibility when the level of internal governance is relatively strong, and power supervision and balances between governance and management are in place. Internal control improves capital allocation efficiency and enhances the long-term success of businesses. Internal control is, however, most vulnerable to fraud. The lack of control over social responsibility risks delaying the long-term development of businesses

State firms in Kenya must be stable, safe, and sound in order to function properly and contribute meaningfully to the country's economic progress, and these conditions must be made possible by a good accounting system supported by an IC system. A functional IC system is a critical component of state businesses and a cornerstone of their efficiency. Many businesses have suffered losses as a result of a faulty IC system, which has also contributed significantly to the demise of others around the country. In 2007, the International Monetary Fund (IMF) definedICs as a permanent method for controlling the actions of a firm at both the central and departmental levels. Operational capacity in a proper accounting and information system is a keyfeature of effective ICs. An IC is a process that propels and guides a firm toward its objectives. These objectives include operational efficiency and effectiveness, financial reporting accuracy,

and adherence to applicable rules and regulations. (COSO 1992). Firm failure is frequently caused by a lack of these elements. The Tread Way Commission Report from 1987 in the United States of America (USA) found that poor or non-existent IC systems were the root of several examples of misleading financial reporting by businesses.

1.1.1 ICs Practices
The definition of ICs varies between models, but the concepts have always been the same. The emphasis on ICs in the model is not just about policies and procedures that help organizations achieve their goals, but also about a system that is influenced by people. People are assumed tobe crucial to adequate ICs in the models. When it comes to ICs, the models place a premium on reasonable confidence. IC's systems cannot ensure that a firm will achieve its goals; instead, theymay only be expected to provide reasonable assurance that it will. The competency and dependability of the firm's workers will always determine their effectiveness. Faulty human judgment, misinterpretation of commands, bias, errors, management overriding controls, and complicity are all limitations of ICs. Furthermore, due to cost-benefit considerations, all conceivable controls cannot be implemented, and as a result of these inherent constraints, ICs cannot ensure that a firm will achieve its objectives.

The practices of IC will strive to adhere to IC's standards, which are developed by a central authority. Environment control, risk assessment, monitoring, communication, and information, as well as control activities, are all necessary components of an effective IC. According to Oseifuah and Gyekye (2013), the overall success and performance of an IC system is determinedby how effectively each component of the IC functions and how they are coordinated with one another.

The factors that have the ability to decide the effectiveness of policies, procedures, and methods designed to the process are the focus of environmental control. It's also the value that a firm's management places on the importance of auditing and risk management (Boanne, Solace & Issaka, 2014). Because it represents attitudes and management practices regarding the necessity of internal audit in the economic unit, environment control is the most important aspect of entity management (Theofanis, Drogalas & Giovani, 2011)

Risk assessment is the process of identifying and analyzing hazards with the goal of creating a better foundation for risk management. It's a method of combining professional judgment about the likelihood of unfavorable occurrences or situations with an assessment of the likelihood of loss (Ndamenenu, 2011). The primary purpose of risk assessment, according to Boanne, Solace, and Issaka, is to identify any situations that may constitute a legal or financial danger to a firm. In such situations, the firm's management must be able to carefully identify an acceptable degree of risk and keep it within predetermined limits (Badara & Saidin, 2013).

Control activities are the procedures in place to ensure that management directives are followed and that the necessary steps are taken to control risks so that the entity's goals and objectives are met (Mwakimasinde, Odhiambo & Byaruhanga, 2014). Aspects of control activities refer to any policy, strategy, or best practice used by a company, particularly a small one, to decrease risk (Boame, Solace & Issaka, 2014). Control operations include segregation of duties, daily bank reconciliations, and other procedures (Badara & Saidin, 2013).

People can use communication and information systems to complete tasks by identifying, capturing, and exchanging information in a format and time frame that suits them (Ndamenenu, 2011). Information pushes control procedures forward, and policies are presented and reinforced.

On the other hand, communication is a method of informing employees of management's commitment to IC's (Oseifuah & Gyekye, 2013). Information should always be shared throughout the organization to allow employees to carry out their duties successfully and efficiently in order to meet the organization's goals and objectives (Badara & Saidin, 2013).

Monitoring is the of assessment the performance of ICs over time, which is commonly accomplished by continuing monitoring operations and IC evaluations such as self-assessments (Ndamenenu, 2011). Its goal is to determine whether an entity's ICs are acceptable, well-executed, strong, and effective (Sampson, 1999).

1.1.2 Financial Performance

The ability of a company to generate greater resources over time through its day-to-day operations is referred to as financial performance. It also refers to a company's capacity to employ resources effectively and efficiently in order to achieve its strategic objectives. According to Kagoyire and Shukla (2016), it is company's ability to operate efficiently, financially, grow, and sustain itself through time. Businesses aim to make the best use of their resources to perform highly notably in financial terms. Consequently, the performance of a corporation can be linked to any of its numerous actions.

Financial performance refers to a company's capacity to make money using current assets from its primary business model and activities. Financial performance also demonstrates how financially sound a company has been throughout time. Financial performance is used to compare companies in the same industry or to companies in various industries or sectors in orderto determine how to improve the current situation or maintain a desirable position in the market (Akinruwa, Awolusi & Ibojo, 2013). Accountability and strategic planning require financial

performance assessments. Performance measurement refers to a metric that assesses how successfully businesses are managed in terms of meeting specified goals and delivering value to their stakeholders (Han, 2014). There are a variety of strategies that state corporations can use to improve their financial performance, but all of them should be considered together. Items such as revenue, operating income or cash flows, total sale units, and so on. Financial performance measurements are major business statistics that measure the firm's financial performance in various key areas, such as new orders, efficient cash collection, ROI, and ROA. Major indicators reflect how far the firm is getting closer to reaching its goals by keeping track of the actions that are most likely to result in losses or outright failure. Firm performance measurement gives information and strategies for achieving long-term success. It steers a firm in the right direction, especially as performance evaluations are frequently used to improve a firm's success. Firm performance refers to a firm's level of success in the market in which it operates. It can also be defined as a firm's ability to make a profit that is respectable (Han, 2014). Several ratios and models, including as return on investment, profit margin, efficiency ratios, and liquidity ratios, are used to assess financial performance. Han et al., 2014). From an accounting standpoint, ROA is used to assess a firm's total and complete performance. The firm's return on assets (ROA) is the ratio of its income to its total assets (Han, 2014)

1.1.3 IC's Practices and Financial Performance

The influence of ICs on performance in financial terms of SCs is investigated in this study. Unlike corporate firms, where shareholders are the primary stakeholders and profit is the primary goal, SCs serve society by providing services and propelling the economy as a whole, and they have a diverse set of stakeholders. The importance of ICs cannot be overstated, as they play a significant impact in the overall success of parastatals (Uzun, 2011). IC systems play a critical

part in any business since they aid in the achievement of financial goals. As a result, a proper and effective IC system has the potential to increase a firm's governance by assisting management in achieving established goals and objectives and risk mitigation (Shanmugam, Haat & Ali, 2012). According to IFAC (2012), effective IC's have the potential to create a competitive advantage because a firm with a good control system can take on more risk. Jensen's (2003) IC systems andpractices, which include internal audits, are intended at improving financial performance reliability by simply enhancing accountability among information sources in a firm. Sanusia etal. (2015) investigated the efficacy, financial management, and accountability practices of mosques in Malaysia, finding that IC systems improve mosques' ability to meet their mission andgoals. Muraleetharan (2011) investigated if a system of ICs may improve a firm's financial performance. He discovered that ICs and financial performance are statistically significant, and that communication and information, as well as environmental control, have a positive link.

1.1.4 Parastatals in Kenya

A parastatal is a state corporation (SC) or a corporate body established by or under an Act of parliament (State Corporation Act Cap 446, 1987); it can also be a corporate body established by presidential order to carry out the functions outlined in the order. A bank or financial institution licensed under the Banking Act, as well as any other company created under the Companies Act, whose shares, or a majority of its shares, are owned by the Kenyan government or another state business, are included (Government of Kenya, 1987; Wamalwa, 2003). There are 127 state corporations in Kenya and they have been put under the 22 ministries. The financial performance of Kenyan state-owned firms has long disappointed the public, who are often the primary owners. The lack of discipline in spending patterns, mismanagement, waste, poor governance, and insufficient oversight by management

and regulatory bodies are all contributing to the poor performance (Sessional Paper No.4, GoK 1991).

Hundreds of millions of Kenyan shillings were diverted from CBK to keep these state-owned businesses viable. By 1991, approximately 1% of GDP had flowed out of the central government account as subsidies to parastatals as a result of poor performance the previous year. Kenyan parastatals received Ksh 7.2 billion in direct subsidies and Ksh 14.2 billion in indirect subsidies from the Kenyan government between 1990 and 1992. Subsidies to parastatals accounted for 5.5 percent of the country's GDP by 1994. (Miringu, 2009). The scenario looked to exemplify Kenya's parastatals' general performance. As a result, the GoK's attempts to redefine the aims for parastatal formation, set performance targets, and implement financial performance- improvement measures have increased. State corporations provided 11% of GDP from 1986 to 1990, but they were also responsible for a net outflow of three billion Kenyan shillings from the central government in 1991, equal to 0.9 percent of GDP. As a result of these debts, internationalloan agencies have been pressuring the government to restructure these state enterprises as private companies in order to reduce public spending and improve overall performance. The government chose to enhance the role of the private sector in order to oversee dynamic economic growth in order to manage the poor performance of state businesses. The government was encouraged to pursue a privatization program by the belief that resources would be better utilizedif they were diverted to the private sector. Despite the fact that the program was created with the goal of reducing government spending and enforcing market discipline, some investors have been hesitant to do business in Kenya, and some have even relocated their businesses out of the country in the past due to the country's poor economic prospects. However, with the change of administration in 2002, and the present government's determination to combat corruption and

implement other economic reforms, the number of investors eager to invest in Kenya has increased. As a result, the reforms being implemented are likely to strengthen governance and attract investment, as investors are unlikely to flock to countries with insecure economic and regulatory systems. (Kiarie Mwaura 2007)

1.2 Statement of the Problem.

Kenyan state corporations do not, in general, rely on exchequer revenues to fund their activities, unless they are unable to sustain themselves due to repeated bad performance, as the Pyrethrum Board of Kenya, Kenya Meat Commission, and Numerical Machining Complex have all demonstrated. In Kenya, the state corporations (SCs) suffer a number of issues that affect their ability to provide reliable services and, as a result, their financial performance. Increased collusion, corruption, and fraud are some of these challenges. The rise of corruption charges has harmed the performance of SCs. The National Youth Service (NYS), with anestimated fraud of Kshs. 10 billion (Brown, Pott&Wömpener, 2014), is one of the most major scandals among SCs. As the number of cases of fraud and collusion on SCs rises, it's unclear whether enough internal measures have been put in place to address the problem. However, SCs confront a variety of obstacles that have hampered their capacity to carry out their functions. Auditor-General has found several mega scams among state enterprises, includingthe KEMSA, NYS, NSSF, NHIF, and KPLC. The ability of SCs to carry out activities effectivelyhas been harmed as a result of the rise in corruption. On this premise, the current study aims to establish whether SCs have implemented sufficient internal controls (Rendon and Rendon, 2016)

International and local studies have come up with contradictory conclusions. In their investigation, Eniola and Akinselure (2016) discovered a substantial negative association between internal control and firm-related fraud. On the other side, Shabri, Bakar, and

Saad (2016) discovered a favorable association between cooperative firm profitability and internal control systems. Muraleetharan(2011) found a favorable association between communicationand information, environmental control, and financial performance in a study on whether an IC's system can lead to increased performance from the standpoint of firms. All of these research, however, were conducted in other countries and may not be applicable in Kenya. As a result, there are gaps in the context.

Internal controls and their effects on business performance have been the subject of numerous studies conducted internationally, regionally, and locally. For example, Abu-Musa (2004), Chunlan (2009), Wittayapoom (2011), and Kakucha (2009), Nyakundi & Nyamita (2014) founda favorable association between proper ICs and business financial success in global and regional research. The majority of these studies, on the other hand, focused on a variety of industries, while others looked at a mix of publicly traded companies in their communities. Furthermore, because the research used diverse approaches, they may not be applicable to the study situation. Locally, Mohammed, (2003) evaluated the internal controls of Ethiopian Airlines' Nairobi branch office, and Esmailjee, (2003) examined the internal controls of Nyayo Bus ServiceCorporations in Nairobi (1993). Asiligwa (2017) discovered a link between internal control systems and commercial bank financial performance. Internal control variables had a good link with financial success, according to Mogunde (2016). Internal control systems and MFI financialperformance have a good association, according to Oyoo (2014). Ndungu (2013) came to the conclusion that UNES' internal control mechanisms had an impact on income generation. They discovered that, despite the existence of numerous internal control systems, operational controls were given more weight than other forms of controls.

Despite the fact that internal control is a critical factor affecting a firm's financial performance

regardless of its size, ownership and objectives, there is little evidence on the impact of internal controls on government owned corporations' financial performance because most studies on internal controls, both globally and in Kenya, focus on private or single unit establishments rather than all the corporations under a state department. As a result, there was a gap in the literature that this study seeks to fill.

1.3 Research Objective

To establish the relationship between systems of IC's on the performance of parastatals in Kenya.

1.4. Value of the study

The research would be extremely useful in terms of theory, practice, and policy. The study's findings would add to the body of knowledge about internal controls and how they affect organizational performance. The research would serve as a foundation for future research among academics and scholars. The research would add to the body of knowledge and make future research easier in the future.

In practice, the study would provide useful information on how internal controls affect an organization's performance. The study would increase the management team's ability to make demutualization decisions in state firms looking to improve their financial performance. Companies' overall performance would improve as a result of this.

The conclusions of this study would be used by policymakers, notably the Auditor General, to advise commercial state enterprises on the best method to improve their internal controls andhow this would affect their performance. This would provide a competitive advantage for these institutions, allowing them to improve their performance. The governance and financial viability of successfully demutualized organizations would likewise improve as a result of this.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Highlights on the notion of systems internal controls will be explored in this chapter. Some of its definitions will be covered, as well as its significance in a firm's financial performance. It will also discuss the empirical studies that have been undertaken on this topic, which have explained the relationship between both the traits and practices of the IC's and the financial success of the state corporations. A conceptual framework showing the relationship between the ICs as independent variables, financial performance as the dependent variable and the organization growth in terms of the asset base and liabilities as control variables will be drawn at the end of the chapter.

2.2 Theoretical Literature Review

The theoretical framework is a pre-made map for a study that relates to a structure of concepts that already exists (and has been tested). It is made up of concepts, hypotheses, research findings,and generalizations that are all relevant to the topic at hand (Sirkin, 2011). Stakeholder theory, contingency theory, and agency theory and theory of the firm were used to construct the study.

2.2.1 Agency Theory

The contributions of Jensen and Meckling gave rise to the agency theory (1976). When a principal is unable to run the business on his or her own, authority is delegated to an agent, resulting in an agency conflict when the principal's and agent's desires clash. It is costly for a principal to constantly supervise his or her agent's work to verify that the agent is acting in the principal's best interests and making decisions in his or her best interests. As a result, the theory of agency provides solutions to emergent issues for both the principle and the agent, allowing them to have a better

connection (Arwinge, 2013). This idea is founded on the assumption that shareholders' and managers' ambitions are not completely matched to allow them to work together to achieve the firm's defined goals and objectives. The idea is significant in financing decisions because of the issues that arise between debt holders and shareholders (Arwinge, 2013).

This theory is relevant to the study as it makes assumptions that GoK has given a mandate to the management of these firms to effectively manage their resources and ensure smooth running of the institution on a daily basis through delegation of duty. Effective internal control systems ensure that investors' interests are well taken care of. In addition, this theory supports existence of control activities, control environment and risk management.

2.1.1 Contingency Theory

This theory is typically used to describe a relationship that exists between the context and structure of an effective system of ICs and business performance, particularly from the perspective of financial reporting (Jokipii, 2010). It claims that there is no better way to develop planning and control systems, as well as management systems, that can handle all scenarios effectively and successfully (Bobkova, 2014). As a result, there is no single universal control system that can be applied to all businesses in all situations. The concept illustrates the relationship between internal control system effectiveness and company performance in changing conditions. To put it another way, the situations and contexts in which internal control systems are effective dictate the use and kind of internal control systems (Fisher, 1998). This theory is critical for understanding the relationship between internal control composition and performance, particularly the efficiency and reliability of the financial reporting system. Internal auditors that specialize in internal auditing, according to Cádiz and Guilding (2008), will see a significant increase in the effectiveness of their operations due to the internal controls in place.

The theory is relevant to this study as it paints a picture how companies may improve their internal controls to improve their performance. This theory informs this study by assertions that use of management control system is contingent on a variety of internal and external factors such as technology, structure size, strategy and culture all affect the management control systems.

2.1.2 Stakeholder Theory

The firm's fundamental purpose, according to the stakeholder theory, is to create money or value for all of its stakeholders, not just shareholders, by converting their stakes into commodities or services (Clarkson, 1994). Stakeholders are any groups or persons who have a vested interest in afirm's success. The activities of IC are designed to empower all stakeholders who make contributions or have influence over resources, ensuring that their interests are aligned with the shareholders'. The focus of stakeholder theory, according to Freeman (1994), is put out in two essential questions. "What is the firm's purpose?" is the first question. It promotes managers to establish a shared understanding of the value they provide, bringing together all of the firm's stakeholders. The second question is, "What responsibilitydoes management have to stakeholders?" This forces them to think about how they want to do business and interact with their stakeholders in order to achieve their goals. Everyone contributes to the development of value, which improves everyone's status, according to the theory. As a result, every authorized individual who participates in the firm's activities does so for personal gain, and their significance is not obvious.

This theory is relevant in this study as it rationally integrates firms' interests and social effects, emphasizing that enterprises should take similar responsibilities for employees, consumers, communities, and regional economic development while improving enterprise value. The firm will adopt complete social responsibility once the level of internal governance is relatively high, and power supervision and balances between governance and management are in place. Internal control

improves capital allocation efficiency and encourages businesses to grow sustainably.

2.1.3 Theory of the firm

This theory is based on neoclassical economics and states that firms exist and make decisionsthat improve their profitability. Contributed by Baumol (1959 & 1962), Marris (1964), and Williamson (1966), it is based on neoclassical economics and states that firms exist and make decisions that improve their profitability. Firms interact with one another in the market to price products and allocate resources in order to maximize profits. According to this view, a firm's behavior is determined by its ability to maximize profits. This theory serves as the foundation formaking decisions about resource allocation, production processes, and output volume. The firm hypothesis, on the other hand, has been criticized for focusing on wide industries. As a result, itis unable to explain why corporations produce the goods and services they do, as well as what motivates enterprises' resource allocation decisions during the manufacturing process (Cal& Lambkin, 2017).

This idea is relevant to the study because it supports decisions made bybusinesses to improve performance. It demonstrates that businesses allocate resources to the most profitable opportunities. Firms can improve their performance by allocating resources in demutualization, which drives performance; thus, the idea connects demutualization and security exchange performance. This research is informed by this theory because the frameworks are designed to answer a variety of questions about firms, such as why they exist, how their boundaries are determined, how owners and managers' competing interests can be reconciled, how firms should be organized internally for efficiency, and why performance outcomes differ between firms.

2.2 Empirical Literature Review

Ibrahim, Diibuzie, and Abubakari (2017) investigated how Ghana's performance in the financial sector was impacted by systems of internal control. The survey had a sample size of 50 people and covered five health clinics. They discovered that systems ICs have a beneficial impact on performance, and Adetula, Balogun, Uwajeh, and Owolabi (2016) investigated how internal controls affected performance in Nigerian tertiary institutions. The questionnaire was used to collect primary data. Internal controls have a significant impact on the functioning of the institutions evaluated, according to the researchers. In South Africa, Avika and Hari (2014) used a descriptive and cross-sectional design with questionnaires to analyze the challenges with effective cash management among small businesses. The findings revealed that cash management knowledge predicted cash flow management in a substantial way. The study also discovered that cash management had an impact on the success of the companies studied.

Shima (2015) investigated the association between system ICs and the financial performance of the Golestan Province Telecommunication Firm in Iran. The study found a substantial and beneficial association between IC's system and the Telecommunication Firm of Golestan province's financial performance. As a result, the study indicated that the presence of anIC system has a beneficial impact on financial performance and that an IC system appears to be required for effective performance found that good IC practices like communication and timely reporting helped government ministries perform better.

Owino (2017) on his research into the influence of internal control systems on financial performance in a Ugandan higher education institution (the case of Uganda Martyrs University).

The findings of the multiple regression model reveal that internal control systems and financial performance have a positive association. Internal controls can be defined as the keeping of accurate

22

accounting records, employee accountability, timely financial reporting, risk mitigation by internal employees, effective communication among employees, efficient and effective use of financial and non-financial resources, and the use of information and communication technology in service delivery.

Locally, Nyakundi, Nyamita, and Tinega (2014) studied how internal control systems affect financial performance using ROI as an indicator for financial performance, utilizing stratified and sample random methods, and a mixed method with cross sectional design. Questionnaires and publicly available statements were utilized as data collection tools. According to the findings, any change in ICs is closely related to a firm's financial performance. Internal control systems were found to have a stronger impact on financial performance. Njiru (2016) used a descriptive research methodology to examine how ICs influenced performance in public water corporations. Internal control systems increased financial performance by providinga check and balance, according to data from a selective sampling of 60 chief internal auditors. Internal controls influenced firm performance in a good and significant way.

Suomala and Lyly-Yusuf (2010) used a case study of the Kenyan manufacturing sector to assess internal control, specifically whether such controls provide an adequate internal control framework of checks and balances to ensure project funds are used solely and entirely for the intended poverty reduction. The findings revealed that those initiatives lacked sufficient internal controls. According to the study, a significant portion of the funds granted to these projects, whether by grant or contribution, will be lost due to embezzlement by officers in charge of these funds. According to the analysis, any project with poor or weak internal controls is at risk of losing funds. The report concluded with recommendations for improving project internal control. The authors however did not focus on the role of internal control in reducing fraud as a preventive control and ensuring proper resource use in Kenyan parastatals, which was a study gap.

Also looking at SMEs, Oyoo (2014) used a descriptive and correlation research approach to look into the link between IC systems and the financial performance of Micro-Finance institutions in Kenya. Data was gathered using semi-structured questionnaires as well as audited financial statements from the Micro-Finance institutions under investigation. With a Pearson correlation coefficient of 0.447, the study found a substantial association between IC systems and financial performance of Micro-Finance Institutions. It was found that ICs had a 44.7 percent impact on financial performance of Micro-Finance Institutions, whereas other factors have a 55.3 percent impact. More attention should be made to adopting more efficient systems management information, according to the report.

Internal controls, according to Mwachiro (2013), are crucial in maintaining a successful revenue collection process. In the research procedure, both qualitative and quantitative methodologies were utilized. In order to acquire the primary data for the study, 38 people were asked to fill out questionnaires. Following data analysis, the five components of risk assessment, control activities, control environment, communication and information, and monitoring were found to be crucial for the proper operation of internal controls. Weak internal controls were also discovered to enable fraud, collusion, and misappropriation of revenue as well as revenue loss.As a result of the research, it was determined that there is a considerable relationship between internal controls and revenue.

Mwakimasinde, Odhiambo, and Byaruhanga (2014) looked at how ICs affected the financial performance of Kenyan sugarcane out-grower businesses. To obtain data, the researchers employed a descriptive correlational survey technique using questionnaires. Furthermore, data was obtained from all financial managers and heads of internal audit for each out-grower

organization using the key informant approach. The data collecting tool was distributed to all

nine sugarcane out-grower institutes. The study's findings revealed that IC systems have asignificant favorable impact on financial performance. According to Mugwe (2010), IC's practices on the performance of manufacturing enterprises in Kenya revealed that manufacturing companies have suffered with liquidity issues and that financial resource accountability is still lacking.

In Kenyan Technical Training Institutions, Mugo (2013) investigated the relationship between information systems and financial performance. Questionnaires were used to collect data for the study from a population of 37 Kenyan technical training institutions. The study found that the institutions' management was dedicated to system control and actively participated in the monitoring and supervision of technical training institutions' activities in Kenya.

Wanjala (2015) used cash budget and cash controls as factors to investigate how effective cash management affects the expansion of SACCOs in Kenya. Using a descriptive design, the sample objective was 169 owners of SACCOs in the transportation sector, and the variables were found to have a positive connection.

Hamza, Mutala, and Antwi (2015) investigated how cash management techniques influenced financial performance. The research was conducted in Ghana, in the setting of small and medium-sized businesses. The chosen design was descriptive. A total of 1000 small business

owners were targeted. The study sample size was set at 300 SMEs after stratification of the population and random selection of respondents. The findings revealed that cash management strategies influenced financial performance in a positive and significant way.

Etengu and Amony (2016) looked into the impact of IC systems on Ugandan non-governmental organizations' financial performance. Using the International Union for Conservation of Nature as a case study, the impact of the control environment, control measures, and monitoring on the financial performance of non-governmental organizations in Uganda was explored. The research took the form of a survey, with primary data collected through structured questionnaires and interviews. The findings of the study revealed a significant relationship between financial performance and each of the internal control measures, and it was recommended that control environment, control activities, and monitoring be improved in order to improve the performance financially.

On the latest reviews, Ibrahim Yahya (2018) assessed the relationship between internal controls practices and commercial state corporation financial performance in Kenya. He adopted a descriptive research design and the findings were that all practices of ICs have a significant influence on the general performance of commercial state corporations and recommended that the management team of all commercial state corporations in Kenya should have clearly established risk management department and work closely with Audit departments and also make improvements both in communication and monitoring.

2.3 Summary of Literature Review and Research gaps

The goals of Kenya SCs is to enhance growth, profitability and sustainability, that is, to actually achieves their mission, and minimizes the risk of loss or failure in the process of conducting business. To fulfill their mission, financial institutions risks must be managed through effective internal controls. This implies that internal control systems play a positive role in the growth, profitability and sustainability of financial institutions (Njagi, 2009; Kiprop, 2010).

The influence of internal controls on performance has been assessed using theoretical, conceptual, and empirical studies. In Uganda, Nigeria, Kenya, Sri Lanka, and Ghana, the majority of the research concentrated on the educational, SMEs, and banking sectors. Theliterature research found inconsistent results regarding the association between IC systems and corporate financial performance. The majority of the assessments were also case studies, focusing on individual companies in a certain industry that have distinct characteristics ormaterial weaknesses in their IC systems. It is therefore for these research gaps that this study sought to establish the effects which internal controls have on the ROA of parastatals in Kenya.

2.4 Conceptual Framework

Mugenda and Mugenda (1999) described conceptual framework as a brief explanation concerning the topic being studied which includes a pictorial image of the key elements of the study. Young (2009) also describes a conceptual framework as a graphical depiction of the link between dependent variable and independent variables. The conceptual framework for this study is as below. It presents the dependent variable (financial performance) and independent variables which include risk assessment process, control environment, information and communication and also control activities.

Independent Variable   **Dependent Variable**

Internal Controls
- Risk Assessment Process
- Control Environment
- Information and
    Communication
- Control Activities

Financial Performance
Return on Asset
(RoA)

Control Variable
Organization Growth
Assets and Liabilities
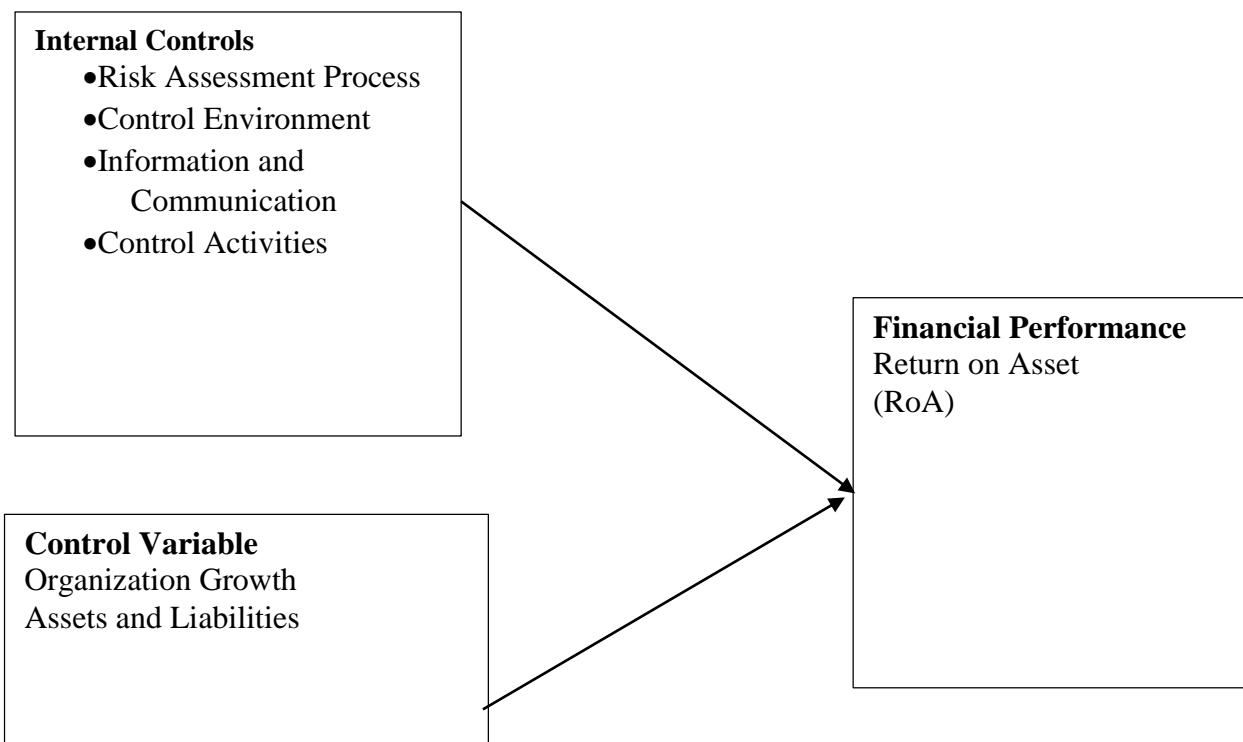
Figure 2.1: Conceptual Framework

Sources: Researcher, 2022

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research design will be explained in this chapter the methodology for the study are also covered in this chapter. It describes the population studied as well as the sampling method utilized. It also goes through how to collect data and analyze it.

3.2 Research Design

It's a plan that advises a researcher how to organize their research (Bryman & Bell 2003). It givesa framework or action plan for a study. The design adopted for this study was descriptive. Descriptive research collects data and creates a pool of events, people, and issues to understand atopic. The architecture is appropriate for examining how IC technologies have affected the financial performance of Kenyan state corporations.

3.3 Target Population

The population of a research is a set of individuals, circumstances, or things that share certain observable characteristics (Mugenda and Mugenda, 2003). Furthermore, a population, according to Kombo and Tromp (2006), is a group of things or items from which measurements are taken. As a result, the population is a large group from whom a researcher might select a representative sample in order to collect data for a study. The target population is Kenya's 16 state-owned enterprises that fall under the National Treasury as a state department.

3.4 Sample

According to Yin (2017), population elements of less than 200 people need the use of a census. Because the population is so small, the sample size was determined by state corporations. The researcher will be able to collect precise information using a census in order to meet the objectives.

3.5 Data Collection

Questionnaires will be utilized to collect the data for the analysis. The process of analysis will be made easier by structuring questionnaires. Self-administered and google forms questionnaires will be used by the researcher. The self-administered questionnaires will be distributed via a drop-and-pick method. For responders to effectively complete the surveys, a one-week grace period will be established. The researcherwill follow up to address any concerns or challenges that respondents may encounter when filling out questionnaires.

3.6 Data Analysis

Cleaning the data to remove incomplete surveys will be the first step in the data analysis. One setof data was cleaned, and the researcher entered it into SPSS software. The data was analyzed descriptively and inferentially, with means, standard deviations, and regression analysis being used.

3.7. Operationalization of Variables

Each independent variable will be matched with the appropriate indication during the study, and then a 5-point questionnaire will be utilized to measure using the Likert Scale.

Table 3. 1 Operationalization of variables

Concept	Variable	Indicator	Measurement
Effectiveness of IC's	Control Environment	Appropriate human resource policies and practices; clearly defined authority and accountability. A firm structure that allows state corporations to be managed	Questionnaire. Scale of 1 to 5
	Risk Assessment	Accounting and Information systems. Communication systems	Questionnaire. Scale of 1 to 5
	Control Activities	Operational efficiency. Physical controls and information processing Separation of tasks.	Questionnaire. Scale of 1 to 5
	Information and Communication	Continuous and sporadic evaluations Documentation and Verification.	Questionnaire. Scale of 1 to 5
	Financial performance	Timely financial reporting Improvements on RoA over time Meeting of current obligations	Questionnaire. Scale of 1 to 5

3.8 Data Validity and Reliability

Expert opinions and other experts familiar with the study issue will be used to determine the validity of the research instruments, and their opinions will be examined and implemented when possible. The Cronbach () Alpha Coefficient was used to determine the study instrument'sreliability. The alpha coefficient is the most generally used estimate of the dependability of a multiple-item scale, and an alpha value of 0.7 or above is desirable.

3.9. Diagnostic Tests

To ensure that the data set does not contradict the regression assumptions, the study will conduct normality, autocorrelation, heteroscedasticity, and multi collinearity tests. Skewness and Kurtosis will put normalcy to the test. The data is normally distributed if the value is between -3 and +3. (Kothari) Durbin Watson Statistics will be used to calculate autocorrelation. Values of -2or +2 indicate that there

is no autocorrelation in the data set. Scatter plots will also be used to test for heteroscedasticity. Heteroscedasticity is indicated by data points on scatter plots that have clearly established patterns. The Variance of Inflation Factor will also be used to detect multi

collinearity (VIF). VIF scores between 1 and 10 indicate that the data set has no multi collinearity.

3.9 Analytical Model

The relationship between IC's procedures and state company performance will be determined using multiple linear regression. The straight line equation was used to generate the regression model, which yielded the following equation:

$Y = \beta_0 + 1X1 + 2X2 + 3X3 + 4X4 + \varepsilon$

Y = Performance of State corporations measured using a Likert scales

X1 = Environment control measured using Likert scales

X2 = Assessment of risk measured using Likert scales

X3 = Control activities measured using Likert scales

X4 = Communication and information measured using Likert scales

β_0= Constant

$\beta_1 - \beta_5$ = Regression Coefficients

ε = Error term

3.10 Test Significance

The R square coefficient of determination will be used to determine how changes in ICs explain variations in state corporation financial performance. The F critical value indicated in the FTable was compared to the F critical value estimated in the ANOVA Table to achieve this. To determine the individual significance of the study's predictor variables, the T-test was used. The level of significance for interpreting p values will be set at 5

CHAPTER FOUR

DATA ANLYSIS, FINDINGS AND INTEPRETATION

4.1 Introduction

This chapter examines the data gathered by the questionnaires in depth. Excel and SPSS were used to sort and code the questionnaires. The data was compiled and presented in the form of percentages, pie charts and tables. Top management employees, including branch managers, credit officers, and departmental managers, provided the information. The summary data are highlighted in part 4.3, while the diagnostic test findings are discussed in section 4.4. The inferential statistics are shown in Section 4.4.

4.2 Data presentation

4.2.1Response rate

The study focused on 16 state firms' employees, as shown in Figure 4:1 below. The data was gathered and evaluated from 112 target population respondents from different departments within the organizations. Only eleven responders (10%) did not complete the questionnaire. According to the findings, more than half of the respondents were able to complete the questionnaire in the proper manner, showing that the data was sufficient for reporting (Mugenda & Mugenda, 1999).
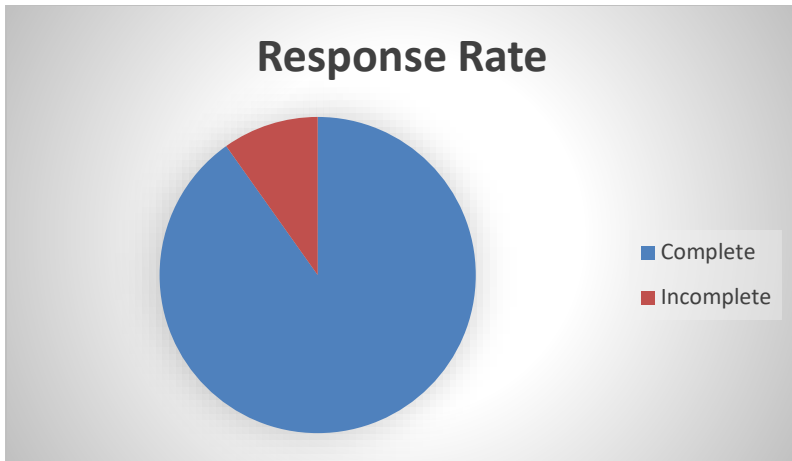
Figure 4. 1: Response rate

Source: Researcher 2022

4.2.2 Number of years worked

The study asked the respondents to show number of years they had worked with the organization and it was established that 4 percent of respondents have been with the firm for less than 5 years, 48 percent for 6 to 10 years, 33 percent for 10 to 15 years and 15 percent for more than 15 years
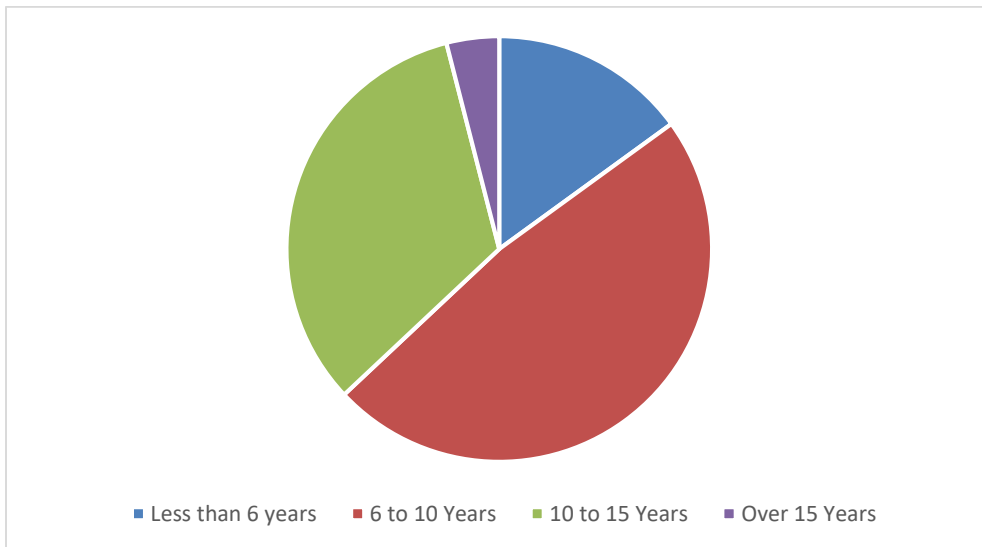
Figure 4. 2: **Number of years worked**

Source: Researcher 2022

4.2.3 Level of education

The study also enquired about the education level of the respondents from the analysis 43% were bachelor's degree holders ,12% master's degree holders ,35% diploma holders and 10% secondary certificate.
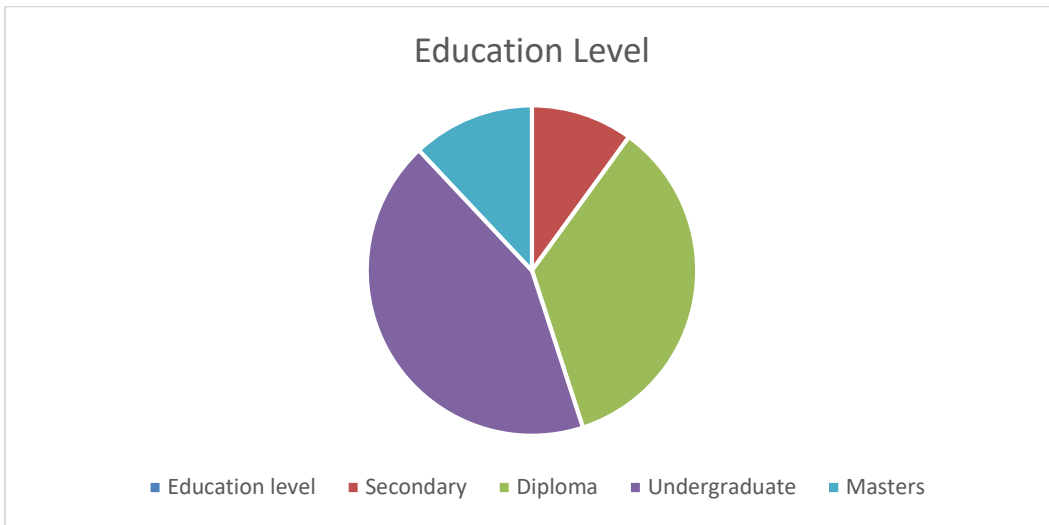
Figure 4. 3: **Level of Education**

Source: Researcher 2022

4.2.4 Designation

The survey asked the respondent to indicate the position with the company presented in figure 4:2, the findings indicated that 48% were accountants ,19% human resource manager,7% security manager,4% stores manger,4% network operator,4 nucleus estate manager and 15% procurement manage. From the findings it is clear that the biggest number of the respondents were accountants.
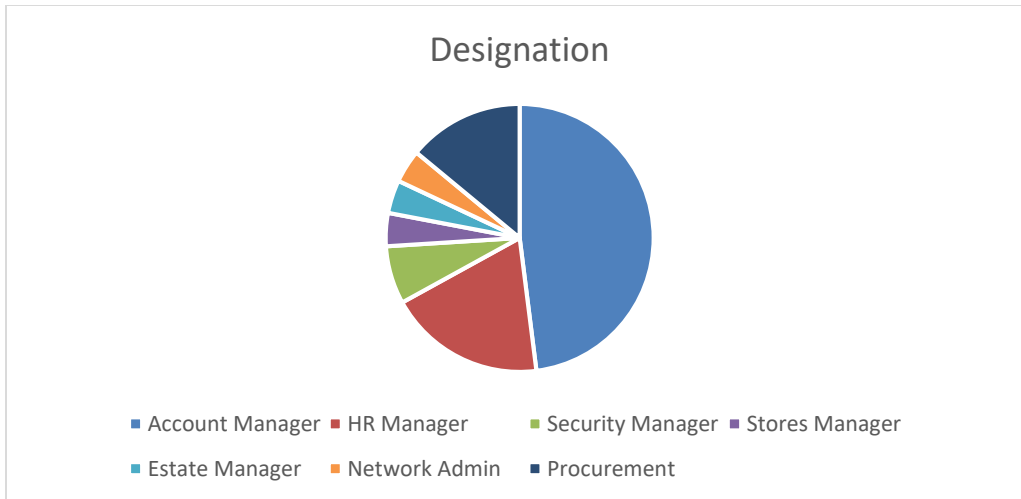
Figure 4. 4: Designation

Source: Researcher 2022

4.3 Diagnostic Analysis

Risk assessment, information and communication, and control activities had a variance of inflation factor of (2.234, 2.752, 1.669, 1.183, as shown in table 4.1 below. The VIF value was found to be between 1 and 10, showing that there was no multi collinearity. Furthermore, if the VIF value is less than one or greater than ten, multi collinearity exists. Because there was no evidence of multi collinearity in this analysis, the researcher proceeded with further analysis.

Table 4. 1: Multi collinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Control environment	.448	2.234
	Risk assessment	.363	2.752
	Information and communication system	.599	1.669
	Control activities	.845	1.183

Dependent Variable: Financial performance

4.4 Descriptive Analysis

4.4.1 Control environment

The goal of the study was to determine the impact of the control environment on financial performance, which is summarized in Table 4.2 below.

Table 4. 2: Control Environment

	N	Minimum	Maximum	Mean	Std. Deviation
The employees have solid working ties with one another	101	3.00	5.00	4.3333	.55470
Every employee is well aware of our institution's internal control system	101	1.00	5.00	3.7407	.94432
Staff of our company are committed to their jobs	101	3.00	5.00	4.0000	.39223
There is a mechanism to monitor regular attendance of staff	101	1.00	5.00	4.0741	.78082
All employees have work schedules	101	1.00	5.00	3.7778	.80064
All jobs are standardized	101	2.00	5.00	3.5185	.70002
The tasks are completed in accordance with the established guidelines.	101	2.00	5.00	3.5556	.80064
The work pattern is adaptable, allowing employees to takevacation in the month of their choice.	101	2.00	5.00	3.8148	.73574

The survey questioned if employees had strong working connections with one another, and the results were (4.33 mean), meaning that the respondents concurred with the assertion. Furthermore, the research asked if every employee is aware of the institution's internal control system; the results were (3.74 mean), meaning that the respondent tallied with the assertion. The research also asked if employees are dedicated to their employment, and the results showed that the respondent concurred with the assertion (4.00 mean). The research also asked if there is a system in place to track employee attendance, with the results suggesting that the respondent concurred with the assertion (4.074 mean).

Furthermore, the survey asked if all workers had work schedules, meaning that there are no job conflicts; the results were (3.78 mean), implying that the respondent tallied with the assertion.

The research also questioned if all occupations are standardized, and the results were (3.518 mean), meaning that the respondent tallied. In addition, the survey questioned if all of the tasks are completed according to the accepted criteria, and the results were 3.56 mean), suggesting that the respondent concurred with the assertion.

Finally, the research questioned if the work structure is flexible enough to allow employees to take vacation in the month of their choosing without feeling obligated. The results were 3.184, suggesting that the respondents were unsure. In conclusion, the majority of respondents tallied that the control environment has an effect on financial performance.

4.4.2 Risk Assessment

The goal of the study was to determine the impact of risk assessment on financial performance; the results are shown in table 4.3 below.

Table 4. 3: Risk Assessment

	N	Minimum	Maximum	Mean	Std. Deviation
Risks are assessed in relation to changes in the operational environment of the firm	101	2.00	4.00	3.6296	.68770
There are processes in place to identify and adapt todevelopments that may pose a danger to the company	101	2.00	4.00	3.8889	.42366
Management has a way to ascertain the fraud-related risks to the firm	101	2.00	5.00	4.0000	.55470
Changes in personnel are thoroughly reviewed for the hazardsthey may pose.	101	2.00	5.00	3.8148	.62247

Management has put in place systems to minimize the risks offraud in the company	101	2.00	5.00	3.9630	.43690
Management detects risks that could jeopardize the firm'sobjectives	101	2.00	5.00	3.4900	.55470
Valid N (list wise)	101				

Source: Researcher 2022

The survey asked if risks are assessed in connection to changes in the firm's operating environment, and the results indicated that the respondents were in agreement statement (3.62 mean). The study also looked into whether there are any procedures in place to detect and respond to developments that could put the company at danger. The results showed indicated that the respondents held similar views (3.89 mean). The survey also asked if management has a criterion for determining the organization's fraud-related risks, and the results showed that (4.00 mean) the respondents tallied with the assertion.

The study also asked if new staff changes are thoroughly assessed for the hazards they may pose; the results were (3.814 mean), meaning that the respondents were in agreement with the statement.

The research went on to question if management has put in place methods to decrease the risks of fraud in the organization, and the results showed that the respondents concurred with the assertion (3.963 mean). Finally, the study asked if management recognizes dangers that jeopardize the company's goals. The results were (4.00 mean), showing that the respondents concurred with the assertion. Finally, the respondents tallied that the organization's risk assessment procedure is critical.

4.4.3 Information and communication

The study sought to establish the effect of information and communication, on financial performance; the findings are shown in table 4.4 below;

Table 4. 4 Information and Communication

	N	Minimum	Maximum	Mean	Std. Deviation
The firm's reporting system lays out all of the obligations of each section/unit	101	2.00	5.00	3.9630	.51750
The firm's information and communications policies include well-established strategies and systems for dealing with financial non-compliance	101	3.00	4.00	3.9630	.19245
Communication aids us in assessing how well the firm'sstandards and policies are working and being executed	101	2.00	5.00	3.9630	.43690
The firm's information and communication channels are well-established	101	2.00	5.00	3.8889	.57735
For decision-making, management receives timely, relevant,and reliable reports.	101	2.00	4.00	3.9259	.38490
In any financial year, there is effective reporting of revenuetargets to be met.	101	2.00	5.00	3.8889	.57735
There is a financial reporting software	101	3.00	5.00	4.0741	.38490

Source: Researcher 2022

The survey asked if the company's reporting system made clear all of the duties of every section with the organization in the organization, and the results (3.96 mean) indicated that the respondents concurred with the assertion. The survey also inquired as to whether the company's information and communications policies include well-established methods and processes for dealing with non-compliance in financial

matters. The findings revealed that the majority of the respondents agreed with the assumption (3.96 mean). The study also asked if the organization has well-established information and channels of communication, with the results showing that the respondents concurred with the assertion (3.89 mean). Finally, the study asked if financial reporting software is available; the results showed a (4.07 mean), showing that the respondents tallied with the assertion. It is undeniable that information and communication have an impact on financial results

4.4.4 Control activities

The goal of the study was to see how control activities affected financial performance, and the results are shown in table 4.5 below.

Table 4. 5 Control Activities

	N	Minimum	Maximum	Mean	Std. Deviation
The firm has built excellent information and communication rules and procedures	101	3.00	5.00	4.07	.474
It is impossible for a single employee to have access to all critical information without the permission of senior management	101	2.00	5.00	3.9259	.54954
There are controls in place to prevent spending beyond the budgeted amount	101	1.00	5.00	3.8148	.78628
There are departmental budget reviews	101	2.00	5.00	3.9259	.54954
On matters including appropriate business practices, conflicts of interest, and codes of conduct, the firm has established and properly communicated necessary policies.	101	2.00	5.00	4.0370	.58714

Employee appraisal techniques are implemented to identify incompetent or ineffective employees	101	1.00	5.00	3.9259	.78082
Valid N (list wise)	101				

Source, Researcher 2022

The survey asked if the company has built successful policies and processes on information and communication, as shown in table 4.5, and the results were (4.07 mean) that the respondent tallied with the assertion. The survey also looked into whether it is conceivable for one employee to have access to all valuable information without the consent of senior management; the results showed that the respondent concurred with the assertion (3.92 mean).

The study also asked if there are controls in place to prevent spending beyond the budgeted amount; the results showed that the respondent concurred with the assertion (3.81 mean). The survey also asked if the organization has proper entity rules in place, such as acceptable business practices, conflicts of interest, and codes of conduct, and if these have been adequately communicated; the results showed that the respondents concurred with the assertion (3.92 mean). The survey also asked if the corporation has sufficient entity rules in place, such as acceptable business practices, conflicts of interest, and codes of conduct, as well as if the findings were adequately communicated (4.03 mean), showing that the respondents tallied with the allegation.

Finally, the survey inquired as to whether employee performance evaluation procedures are used to detect incompetent or ineffective personnel. The results showed that the majority of respondents (3.92 mean) tallied with the assertion. Finally, the data suggest that control actions are critical in any company.

4.4.5 Financial Performance

Table 4. 6: Financial Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Your corporation base their profitability on the internal controlsystem	101	2.00	5.00	4.4722	.6542
Effective internal control system increase translates to increased regular turnover	101	1.00	5.00	4.3520	.8218
Competition influences the firm's market position	101	2.00	5.00	4.1667	1.0281
Profitability influences firms financial health	101	2.00	5.00	4.3054	.85589
Return on Asset affects non-financial performance of a firm	101	5.00	2.00	2.6544	.77254

Source: Researcher, 2022

The survey asked if SCs base their profitability on internal control systems, and the average response was 4.4722, showing that the respondent highly tallied with the assertion. Further research looked into whether improving internal control systems leads to higher regular turnover; the average score was 4.3520, suggesting that the respondents strongly tallied with the assertion. The study also inquired as to whether competition has an impact on the firm's market position; the average response was 4.1667, suggesting that the respondents tallied with the assertion. In addition, the survey asked if internal control system performance is a factor of sustainability and financial profitability, and the results showed a 4.305 mean, showing that the respondents highly tallied with the assertion. Finally, the study

looked into whether Return on Asset influences a firm's non-financial performance; the results showed

a 2.65 mean, showing that the respondent did not agree with the assertion. Finally, the data revealed

that the respondents concurred with the assertion.

4.5 Correlation Analysis

This is the extent to which study variables are related is determined. Internal control systems were used

as independent factors, while asset returns were used as the dependent variable. Correlation analysis was

done to establish the strength of the relationship between dependent and independent variables. Pearson

correlations vary from -1.00 to +1.00, with positive values indicating positive associations and negative

values indicating negative relationships between research variables.

Table 4. 7: Correlation Analysis

		Y	X_1	X_2	X_3	X_4
Financial performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Control environment	Pearson Correlation	$.787^{**}$	1			
	Sig. (2-tailed)	.000				
Risk assessment	Pearson Correlation	$.591^{**}$	$.723^{**}$	1		
	Sig. (2-tailed)	.000				
Information and communication	Pearson Correlation	$.654^{**}$	$.446^{*}$	$.577^{**}$	1	

System	Sig. (2-tailed)	.000	.020			
Control activities	Pearson Correlation	-.014	-.183	-.019	-.272	1
	Sig. (2-tailed)	.944	.360	.923	.170	

Source: Research findings (2022)

To show the relationships between variables, correlation analysis was utilized. The results in the table above demonstrate that there is a positive (r =0.787) and significant (p =0.001) link between company performance and control environment. This means that increased control environment is linked to greater business performance. The findings also demonstrated a statistically insignificant positive relationship between company performance and risk assessment (r =0. 591, p=0.001). The correlation analyses also revealed a statistically significant positive association between company performance and information and communication system (r =0. 654, p =0.000). Meaning that these factors tend to rise in tandem, i.e., improved business performance is linked to improved information and communication systems. There was also a statistically insignificant negative association between company performance and Control actions (r =-014, p =0.944).

4.6 Regression Analysis

Control activities, risk assessment, information and communication system, and control environment were used to predict financial performance of state-owned SCs in Kenya. At a 5% significance level, the regression analysis was run. As shown in the table below, the study obtained model summary data.

4.6.1 Model Summary

Table 4. 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721[a]	.520	.492	.07398

Source: Research findings (2022)

The R, or correlation coefficient, in the regression analysis results shown in table 4.6 above was 0.721, showing a strong association between the study variables. The predictor elements in the analytical model explain 52 percent of the differences in financial performance, according to the coefficient of determination ($R2$) of 0.520. (Control activities, Risk assessment, Information and communication system and Control environment). Other factors not included in the model, on the other hand, account for 48% of the variation in financial performance value. The modified R value was.492, showing that changes in the number of independent variables caused a 49.2 percent difference in financial performance of government-owned

4.6.2 Analysis of Variance

Table 4. 9: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.843	4	.211	38.485	.000[b]
	Residual	.120	22	.005		
	Total	.963	26			

Source: Research findings (2022)

The p-value is less than 0.05, hence the significance value is 0.01. This means the model was statistically significant in predicting how control activities, risk assessment, information and communication systems, and control environment affect the financial performance of government-owned SCs.

4.6.3 Coefficient of Determination

Table 4. 10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.227	.187		11.880	.000
	Control environment	.081	.028	.327	2.902	.008
	Risk assessment	.235	.057	.516	4.129	.000
	Information and communication system	.018	.012	.244	2.500	.020
	Control activities	-.045	.030	-.122	-1.487	.151

The aforementioned data suggest that there is a positive and substantial association between the control environment and ROA, as evidenced by p values less than 5%. This study's risk assessment and information and communication system yielded favorable and statistically significant results, as evidenced by p values of less than 5%. Control activities resulted in a negative but statistically insignificant connection, as evidenced by p values greater than 5%.

The regression equation below was calculated.:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

$$Y = 2.227 + 0.081 X_1 + 0.235 X_2 + 0.018 X_3 - 0.045 X_4$$

The constant = 2.227 in the calculated regression model above indicates that if selected dependent variables were rated zero, the financial performance of SCs would be 2.227. SCs' financial performance

would improve by 0.081 for every unit improvement in control environment. SCs' financial performance would improve by 0.235 and 0.018 with each unit increase in Risk assessment and Information and communication systems, respectively, but financial performance would decline by 0.045 with each unit rise in Control activities.

4.7 Discussion of the Research Findings

The findings revealed a substantial association between financial performance and risk assessment, information and communication system, and a negative correlation between financial performance and control activities on the correlation matrix. Additional model analysis findings revealed a substantial (R= 0.721) link between internal control systems and DTM financial performance. Control activities, risk assessment, information and communication system, and control environment are the independent variables that can explain around 52% of the overall differences in financial performance of Kenya government-owned SCs. The model was significant at the 5% significance level, with an F-ratio of 38.485 and a P value of 0.001, according to the study's significant ANOVA results. Control Environment P-value 0.008, Risk Assessment P-value 0.001, and Information and Communication System P-value 0.020 were found to have substantial effects on SC financial performance, with P-values 0.05. As a result, the total regression model was statistically significant and appropriate for predicting how the independent variables chosen affect SCs' ROA in Kenya hence the results as summarized below

Control Environment

Research findings indicated that the control environment had greatly affected the SCs ROA. Weak and poor control environment negatively affects financial performance and vice versa. A mean of 4.33 showed that employees have solid working ties and that they had solid working ties by a mean of 3.74.

They also agreed that the staff are committed to their work with a mean of 4.00 and that there are mechanisms to monitor staff attendance with a mean of 4.07. The employees have a weak work schedules and work is accomplished according the set principles with a mean of 3.55. Staff welfare is also well catered for as indicated with a mean of 3.8

Risk Assessment

Findings indicated that there is a high and significant influence that risk assessment mechanisms and systems have on financial performance of state corporations. Risk assessment has affected the corporations' asset base. Strong and effective risk management systems have yield strong internal control mechanisms which have resulted to high rate of return on assets, low operating costs and high fees income while weak and porous ones have led to poor performance of the SCs.

Control Activities

A negative correlation between financial performance and control activities on the correlation matrix indicates that control activities don't have a significant influence on the financial performance of an establishment. Ineffective control activities result in weak internal control systems and poor financial performance and vice versa.

Information and Communication

From the research findings, information and communication procedures, systems and mechanisms have had a significant influence on the corporation's revenue, return on asset as indicated by the tabulated results. This indicates that good information and communication systems lead to high institutional revenue, low operating costs and high fees income.Control activities, risk assessment, information and communication system, and control environment are the independent variables that can explain around 52% of the overall differences in financial performance of Kenya government-owned SCs.

The conclusions of this study are comparable to those of Muraleetharan (2011), who investigated the impact of internal controls on the financial performance of Sri Lanka's Jaffna district organizations. Data was gathered through a self-assessment questionnaire and personal interviews, with 181 respondents recruited from 47 public and private institutions in the Jaffna district. The data was examined using SPSS, which included regression analysis tools. Internal control is statistically significant in predicting performance, according to the study.

The conclusions can also be compared to a study carried out by Asiligwa (2017) on Internal controls and the financial performance of Kenyan commercial banks. A descriptive research design was adopted in this study. 43 Kenyan commercial banks took part in the study. Internal control systems and financial performance in commercial banks in Kenya were found to have a positive relationship, according to the research.

A study by Morteza, Parviz and Shima (2015) concluded that existence of system of internal control influences performance in financial perspective positively and an internal control system seems to be necessary for effective performance. Mwakimasinde, Odhiambo and Byaruhanga (2014) revealed a positive significant effect of internal control 37 system on the financial performance. Nyakundi, Nyamita and Tinega (2014) established that systems of internal control significantly influence performance in financial perspective.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of this research, conclusions, recommendations, limitations of the study and suggestion of areas which may require further consideration as far as future research is concerned.

5.2 Summary

The goal of the study was to see how internal control mechanisms affected the financial performance of Kenyan SCs. Internal control systems were the study's independent variable, while financial success was the dependent variable. It used a descriptive research method. The population was made up entirely of people employed by Kenya's state owned enterprises under the Ministry of Finance. The study used primary data obtained using a standardized questionnaire, which was processed on SPSS version 22 using descriptive and inferential statistics. Senior management workers from several divisions of the organization, including accounting, human resources, procurement, and security, were surveyed. The data was collected and analyzed from 112 target population respondents. 111 respondents (90%) completed the questionnaire correctly, whereas 11 respondents (10%) did not complete the form correctly.

5.2.1 Control Environment

The research found that assignment of authority was commensurate with working ties to a great extent as shown by a mean of 4.3, corporate systems awareness was held with high esteem to a moderate extent as shown by a mean of 3.74 and commitment into work also to by great extent as shown by a mean of 4.00. It was also established employees were regularly monitored as shown by a mean of 4.07 and highly agreed that they had work schedules by show of a mean of 3.7. A mean of 3.51 indicated

that jobs are well standardized and in accordance with the set standards by a mean of 3.56. On staff welfare, it was agreed that the work pattern is adaptable and that they are allowed to take leaves in a month of their choice.

5.2.2 Risk Assessment

The research further found that assessment of risk associated with company-wide objectives was carried out to a great extent as shown by a mean of 3.63, the institutions practiced adequate controls in adaptation of new developments that may endanger the organization as shown by a mean of 3.89 and also ascertains fraud related risks to the firm by a mean of 4.00. In terms of reviews in personnel changes that may pose risks to the firm was carried out well by show of a mean of 3.81, fraud was well mitigated shown by a mean of 3.96 and also that the organization detects risks that can hinder its objectives by a mean of 4.00

5.2.3 Control Activities

The study further found out that there was a clear channel of communication to a high extent as shown by a mean of 4.07, critical information was well secured to a higher also extent as shown by a mean of 3.92 and contingency spending was regulated well by mean of 3.81. There are departmental budget reviews was highly agreed by a mean of 3.93 and professional integrity, moral values was well established as indicated by a mean of 4.03. Employee appraisal techniques were also well implemented to identify incompetent employees as shown by a mean of 3.92

5.2.4 Information and Communication

The study further found that periodic reports were made to top management of the institutions to a great extent as shown by a mean of 3.96. The corporates information and communication channels supported complete, correct and timely financial reporting by making all relevant internal process instructions and policies were accessible to all the employees concerned to a moderate extent as shown

by a mean of 3.88, 3.92 and 3.96 respectively. Communication facilitated regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements which influenced performance in the long run as shown by a mean of 3.89

5.3 Conclusions
Several inferences can be taken from the evaluated data. First, the study found that an organization that has established a good working relationship among employees, that they are committed to their jobs, that all employees have work schedules and thus no work conflicts, and that there is a mechanism in place to monitor regular attendance of employees as part of its control measures to improve financial performance.

In order to manage its risks, the corporations have guaranteed that risks are examined in relation to changes in the operational environment, according to the risk assessment. There are systems in place to recognize and respond to changes that could have a significant impact on the company, management has criteria for determining fraud-related risks, and communication routes for changes in service delivery are in place. New staff are rigorously examined for potential dangers, and management identifies risks that could threaten the achievement of the Company's objectives.

In terms of the information and communication system, the study found that the organization has effective reporting of revenue targets to be accomplished in a given financial year to improve its information systems. The company's reporting system spells out all of the responsibilities of each section in the organization, and communication aids us in evaluating how well the company's guidelines and policies are working and being implemented, as well as ensuring that all operational information is given to staff on time.

The research further concludes that assessment of risk associated with company-wide objectives was carried out to a great extent, the institutions practiced adequate controls in custody and disposal of

assets including cash to a great extent and risks of material misstatements in financial reporting occurred in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure to a moderate extent. The study further concludes that the sate corporations base their profitability on the internal controls and that improving the systems leads to improved profitability. It concludes that competition impacts the market position of the corporation and that the internal control systems affect the financial sustainability of the firm. The study concluded that RoA does not affect the firm's non-financial performance.

5.4 Recommendations for Policy and Practice

The study recommends the employees develop solid and close working ties both within their department and extend the same to other departments. This is to enhance proper operation of the controls put in place. The study further recommends assessment of risk associated with company-wide objectives be carried out regularly so that the management can know whether or not the company objectives will be met. The study further recommends systems to be set to enable management monitor attendance and set standards on operational standards for every task coming from all departments. This could be achieved by employing competent staff, putting in place an audit committee to supervise the work of the audit staff. Specialization and division of labor can also help boost this

The study recommends that a risk assessment procedure be put in in place to help flag any risks that can adversely affect the organizations' operational environment. These should be also start from every department by assigning the responsibility to a member of each department. The study further recommends periodic interdepartmental transfers of members that. This is to ensure staff are well versed with possible risks that could emanate from each and every corner of the organization and act accordingly.

The organization's information and communication channels should complete, correct and timely

financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned since communication facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements which influences performance in the long run. The study further recommends the organization to put in place effective command chains as it facilitates monitoring of efficiency of operations and the company's process for financial reporting be reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The study further recommends the institution to mitigate the challenges in its internal control systems by ensuring there is an effective communication channel, the management decisions be made collectively and not be controlled by different stakeholders and policies and procedures be put in place. This provides that decisions are made with appropriate approvals.

Lastly, whistleblowing is highly recommended. Any member of the organization should feel free to report any malpractices within their respective departments to the governing bodies. This should be done by installing suggestion boxes and confidential staff emails. These enables the junior staff not to feel victimized anytime they feel like something is not right within their departments.

5.5 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses. Otherwise the responses given would have been totally different from what the researcher expected.

The small sample size could have limited confidence in the results and this might limit generalizations to other situations. Most respondents needed to be continually reminded and persuaded to provide the required information. Time was a major concern due to official duties.

Data used was primary data and it was costly and difficult to collect. Lack of sufficient funds was therefore a big limitation encountered. Respondents were reluctant to give information for fear that information sought would intimidate them or give a negative image to the institution. This was resolved by availing an introductory letter, authorizing collection of date, given by the head of the department and signed by the supervisor.

5.6 Suggestions for Further Research

The study focused solely on the impact of internal control systems on the financial performance of Kenya's state-owned enterprises under the state department of National Treasury. Further studies on the same topic should also be extended to other Ministries. This research employed primary data to examine the internal control system and financial performance. As a result, more research using secondary data is recommended in this study. Other models, such as the Vector Error Correction Model (VECM), can be employed to explain the varied correlations between the variables due to the inadequacies of regression model.

This study has reviewed the effect of internal control on financial performance of Kenyan SCs. To this end therefore a further study should be carried out to establish the effect of internal controls on

financial performance of the private companies and the public sector.

This study has reviewed the effect of internal control on financial performance of Kenyan State Corporations with a small sample involving only heads of finance department in the respective institutions. A bigger sample of respondents of at least 30 respondents should be used to facilitate a more informative conclusion.

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APPENDIX I: QUESTIONNAIRE

Kindly take a few moments to answer out this survey on the EFFECTS OF INTERNAL CONTROLS ON PARASTATALS' FINANCIAL PERFORMANCE IN KENYA.

Please remember that any information you supply will only be used for academic purposes.

SECTION ONE: DEMOGRAPHICS IN GENERAL

1. The Corporation's Name

2. Gender? Female ( ) Male ( )

3. What is your highest level of education?

Other ( ) Undergraduate ( ) Postgraduate ( ) Diploma ( ) Undergraduate ( ) Postgraduate ( ) Undergraduate ( ) ( )

4. How long have you been employed by your company?

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

SECTION TWO: CONTROL ENVIRONMENT

Mark against the statements accordingly to the guidelines below

Use:

1-Strongly Disagree, 2-Disagree, 3-Undecided, 4-Agree, and 5-Strongly Agree arethe five levels of disagreement.

Statement	1	2	3	4	5
The employees have solid working ties with one another.					
Every employee is well aware of our institution's internal control system.					
Staff of our firm are committed to their jobs					
A mechanism is in place to monitor regular staff attendance					
All employees have work schedules					
All jobs are standards					
The tasks are completed in accordance with the established guidelines.					
The work pattern is adaptable, allowing employees to take vacation in the month of their choice.					

SECTION THREE: RISK ASSESSMENT

Mark against the statements accordingly to the guidelines below1-

Disagree vehemently, 2-Disagree vehemently
3-Undecided, 4-Agree, and 5-Strongly Agree are the three options.

Statement	1	2	3	4	5
Risks are assessed in relation to changes in the operational environment of the firm					
There are processes in place to identify and adapt to developments that may pose a danger to the company.					
Management has a way to ascertain the fraud-related risks to the firm					
Changes in personnel are thoroughly reviewed for the hazards they may pose.					
Management has put in place systems to minimize the risks of fraud in the company.					
Management detects risks that could jeopardize the firm's objectives					

SECTION FOUR: INFORMATION AND COMMUNICATION SYSTEM

Mark against the statements accordingly to the guidelines below

Use: 1-Strongly Disagree, 2-Disagree, 3-Undecided, 4-Agree, and 5-Strongly Agree are thefive options.

Statement	1	2	3	4	5
The firm's reporting system lays out all of the obligations of each section/unit.					
The firm's information and communications policies include well-established strategies and systems for dealing with financial non-compliance.					
Communication aids us in assessing how well the firm'sstandards and policies are working and being executed.					
The firm's information and communication channels are well-established.					
For decision-making, management receives timely, relevant, and reliable reports.					
In any financial year, there is effective reporting of revenue targets to be met.					
There is a financial reporting software					

SECTION FIVE: CONTROL ACTIVITIES

Mark against the statements accordingly to the guidelines below

1- Strongly Disagree, 2- Disagree, 3- Undecided, 4- Agree, and 5- Strongly Agreeare the five options.

Statement	1	2	3	4	5
The firm has built excellent information and communication rules and procedures.					
It is impossible for a single employee to have access to all critical information without the permission of senior management.					
There are controls in place to prevent spending beyond the budgeted amount					
There are departmental budget reviews					
On matters including appropriate business practices, conflicts of interest, and codes of conduct, the firm has established and properly communicated necessary policies..					
Employee appraisal techniques are implemented to identify incompetent or ineffective employees					

SECTION SIX: FINANCIAL PERFORMANCE

Share your thoughts by ticking (1) Strongly Disagree, (2) Disagree, (3) Not Sure, (4) Agree,and (5) Strongly Agree on a scale of one to five

Statement	1	2	3	4	5
Your corporation base their profitability on the internal control system					
Effective internal control system increase translates to increased regular turnover					
Competition influences the firm's market position					
Profitability influences firms financial health					
Return on Asset affects non-financial performance of a firm					

APPENDIX II:
SCs UNDER NATIONAL TREASURY

1. Capital Market Authority

2. Kenya Accountants and Secretaries National Examinations Board (KASNEB)

3. Insurance Regulatory Authority

4. Kenya Trade Network Agency

5. National Bank of Kenya

6. Deposit Protection Fund

7. Kenya Investment Authority

8. Kenya Post Office Savings Bank

9. Kenya Revenue Authority

10. Retirements Benefit Authority

11. Competition Authority of Kenya

12. Privatization Commission

13. Kenya Reinsurance Corporation

14. Public Procurement Oversight Authority

15. Consolidated Bank of Kenya

16. Public Procurement Oversight Authority