EFFECTS OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE OF TECHNICAL TRAINING INSTITUTIONS IN KENYA

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DECLARATION

This research project is my original work and has not been submitted for a degree course or any other award in any other University.

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DEDICATION

This project is dedicated to my dear wife Nancy and our children, Willy and Faith for their tireless efforts of supporting me emotionally and their financial support which has contributed to the completion of this project within the stipulated timeframe.
ABBREVIATIONS AND ACRONYMS

ACCA- Association of Chartered Certified Accountant
IFRS- International Financial Reporting Standards
CPD- Continuing Professional Development
ERP- Enterprise Resource Planning
COSO- Committee of Sponsoring Organizations
SAS- Statement of Auditing Standards
ABA- American Bar Association
AICPA- American Institute of Certified Public Accountants
ICPAK- Institute of Certified Public Accountants of Kenya
IIA-UK- Institute of Internal Auditors- United Kingdom
ICT- Information Communication Technology
SME- Small and Medium Size Entity
TIVET- Technical, Industrial, Vocational and Entrepreneurship Training
TVET- Technical, Industrial, Vocational and Entrepreneurship Training
MIS- Management Information System
MOES&T- Ministry of Education, Science and Technology
MoE- Ministry of Education
(NFE) - Non-Formal Education
MVA- Market Value Added
ROA- Return on assets
ROE- Return on equity
ROS- Return on sales
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The study investigated and sought to establish the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls.

The research was conducted using both quantitative and qualitative approaches using Survey, Correlation and Case study as Research Designs. Data was collected using Questionnaires as well as review of available documents and records targeting basically Finance Officers, Heads of Departments, Management Committee members and Finance and Accounts staff as respondents from a population of 37 Technical Training Institutions in Kenya. Data was analyzed using the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package.

The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the Technical Training Institutions in Kenya, all the activities of the Institution are initiated by the top level management, that the internal audit department is not efficient, is understaffed, doesn’t conduct regular audit activities and doesn’t produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system. It was further revealed that there is a clear separation of roles, weaknesses in the system are addressed, and there is a training program for capacity building in the institutions. However, the study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the Technical Training Institutions in Kenya. It was also
noted that there isn’t enough cash to meet intended obligations effectively as and when they fall due, that the fees charged to students are not appropriate to cover costs, that all fees meant to be remitted to the Technical Training Institutions in Kenya are not collected. It was however, revealed that all revenues and expenditures are properly classified, and that assets of the Technical Training Institutions in Kenya have generally increased.

The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the Technical Training Institutions in Kenya expects the internal audit department to do and what appropriate number staff would be required to do this job. It also recommends that the institutions establishes and manages knowledge/information management system to enable all parties within the institution to freely access and utilize the official information. There should be a strategy to improve the generation of additional finances for the Technical Training Institutions in Kenya. The Study therefore concludes that internal control systems do function although with hiccups and that there is a significant relationship between internal control systems and financial performance of Technical Training Institutions in Kenya.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions (Brennan & Solomon, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organizations communication processes, internally and externally, and include procedures for:- handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization’s financial statements, maintaining inventory records of real and other properties and their whereabouts.

Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (David, 2001). Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management (Jenning et al., 2008).

The reliability of financial reporting is effective to internal control efficiency to ensure that
the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. Moreover, it is very important that organizations have fairly summarized accounting information data disclosure (Sebbowa, 2009). However, in general, a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

On the other hand Sebbowa (2009) refers to performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats. For purposes of the study I will adopt Ray and Kurt’s definition of internal control systems. In as much as Internal control Systems are wide and numerous, for the sake of this study, Internal control systems will be limited to; the Control Environment, Internal Audit, and Control activities whereas Financial performance will be looked at basically from the three perspectives of Liquidity, Accountability and Reporting (Donald & Delno 2009).

1.1.1 Financial Control in Technical Training Institutions in Kenya

Financial control refers to means by which an organization’s resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization’s resources, both physical (machinery and property) and intangible (reputation or intellectual property such as trademarks) (Jenning et al., 2008). At
the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes (Donald & Delno 2009).

1.1.2 Financial Performance

Organizational performance encompasses accumulated end results of all the organization’s work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth (Gerrit & Abdolmohammadi, 2010).

According to Donald & Delno (2009), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Gerrit and Abdolmohammadi (2010) contends that, performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

Brennan & Soloman (2008) found out that, objective performance measures include
indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Brennan & Soloman (2008) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of 30 corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Donald & Delno (2009) mention accounting-based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

1.1.3 Internal Control and Financial Performance of Technical Training Institutions in Kenya

Internal control is broadly defined as a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Donald & Delno 2009). Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. And it can help ensure that the enterprise complies with laws
and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way (Jenning et al., 2008).

Internal control is involves an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable. Creating flexible, high-performing, learning organizations is the secret to gaining competitive advantage in a world that won’t stand still. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment) (Jenning et al., 2008).

Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth. Accounting measures have several strengths. They are widely available because governments require firms to publish accounting data and the fact that they are subject to internal controls within firms enhances their reliability (David, 2001). Non-financial organizational performance measures include; opportunities to maximizing returns on investment at minimal costs, promote stakeholder relations between customers, suppliers,
investors, and competitors, increase profits, volume of sales, market share, development of new products, and communication within and outside the organization. But the foundation of long-term performance is lifetime customer value; the revenue customers generate over their lives, less the cost of acquiring, converting, and retaining them (David, 2001).

1.1.4 Technical Training Institutions in Kenya

Technical, Vocational and Entrepreneurship Training (TVET) is a comprehensive term referring to the educational process. It involves, in addition to general education, the study of technologies and related sciences and the acquisition of practice, skills and knowledge relating to an occupation in various sectors of economic and social life. With regard to skills training, there are 2 National polytechnics, 18 Technical training institutions, one Technical Teacher Training college and 12 Institutes of Science and Technology. In addition, there are 600 youth polytechnics distributed throughout the country with only 350 receiving Government assistance. The private sector operates close to 1,000 Technical and Commercial colleges (MOEST, 2002).

In addition to the above institutions that fall under the auspices of the Ministry of Education Science and Technology (MOES &T), other Government Ministries operate institutions that provide specialized technical training. These include institutions run by the Ministries of Home Affairs, Office of the President, Ministry of Health, Ministry of Water Development, Ministry of Roads and Public Works and Ministry of Labour and Human Resource Development, among others. Overall, the management of Technical, Industrial, Vocational and Entrepreneurship Training (TIVET) institutions is spread over several ministries, which makes co-ordination of their activities and maintenance of training
standards difficult. The supervision of most of these institutions is left to individual ministries and private sector that often lack the capacity to assure quality and high standards of training and management (MOEST, 2002).

Due to the limited places available in TVET institutions and the apathy towards technical education in the country, only a small proportion of eligible school leavers are absorbed. Every year, 55% of those graduating from the primary and secondary school level join technical institutions while the balance join the labour market directly. There is need to target this group for skills development through TVET institutions as these have the potential to create the critical human resource needed for technological transformation of the country.

It is imperative therefore that the existing education structure is reviewed in order to establish opportunities that link TVET programmes with programmes at higher levels of education and training. This will have the potential of enhancing training and the attractiveness of the TVET programmes to learners, and parents who consider TVET as sub-standard. Non-Formal Education (NFE) in Kenya is mainly provided and managed by communities and Non Governmental Organizations (NGOs). The main challenges relate to the low quality of education provided and the lack of linkages with the formal education system. The sub-sector also suffers from the lack of adequate teaching and learning resources, poor physical facilities and low prioritization by Government in terms of budgetary allocations (MOEST, 2002).

Performance of Technical Training Institutions in Kenya has remained a big challenge in
the modern competitive business environment. Regardless of the internal control practices, it is evident that Technical Training Institutions in Kenya are inefficient and ineffective based on their practices. However, the motive behind this study is to investigate the effect of internal controls in performance of technical institutions in Kenya thus coming up with appropriate measures to reduce the felt difficulty among Technical Training Institutions in Kenya.

1.2 Problem Statement

The internal control is essential corporate governance mechanism of the firm based on internal control statement quality that it should be to control effectiveness and also influences the reliability of financial reporting both in internal and external's firm (Skaife et al, 2007). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. “The likelihood of achievement is affected by limitations inherent in all systems of internal control” (Gerrit and Abdolmohammadi 2010). Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations (Emasu, 2010). The continued involvement of Technical Training Institutions management in the affairs of supervisory capacity has ensured continuity and faster rise, growth and prosperity.

However, related studies that have been conducted in Kenya on Technical Training Institutions internal control systems clearly indicate that organizational internal control and financial performance is understudied area. Some of the challenges experienced with
regard to internal control include; struggles with Liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources have been unearthed and a number of decisions made have not yielded the expected results.

A study conducted by (Simiyu, 2011) on effectiveness of internal control system in middle institutions of learning in Kenya clearly indicate that Technical Training Institutions face quiet a number of challenges during internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources. However the study did not focus on effects of internal controls on performance of Technical Training Institutions in Kenya.

However, the findings of the study carried out were too general and did not focus specifically on Internal Control on performance of financial Technical Training Institutions in Kenya. Arising from the findings of the above study, it is clear that, there are many areas about internal control in relation to financial performance of Technical Training Institutions in Kenya that have not yet been fully addressed. It is for this reason that this study seeks to investigate the effects of internal controls on financial performance of Technical Training institutions in Kenya. Therefore, this study was guided by the following research question:

i. What is the relationship between internal control systems and financial performance of Technical Training Institutions in Kenya?
1.3 Research Objective

The research objective was:

i. To examine the relationship between internal control systems and financial performance of Technical Training Institutions in Kenya.

1.4 Value of the Study

The results of the study will help identify gaps within the systems of internal control in Technical Training Institutions in Kenya. It is also the researcher’s belief that invaluable benefits to management and those charged with governance and training in TTIs will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the Institutional objectives. The study will also add to the existing knowledge bank regarding internal controls. The development partners who are usually interested at helping the Technical Training Institutions to modernize the training facilities will have an understanding of a wide variety of factors that hinder the growth of Technical Training institutions hence sustainability. Scholars and researchers who would like to carry out more studies on internal Controls and financial performance in Technical Training Institutions will find the study beneficial.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The chapter outlines; internal audit and performance, control activities, performance, measures of financial performance, control environment, value of internal control and risk management and empirical studies.

2.2 Theoretical Framework
Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents. Accordingly, Barlie & Means (1932) posit that in order to harmonize the interests of the agent and the 13 principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Coarse (1937) who maintains that the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work.

He however, proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Coarse (1937) explains that moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done.
This therefore, affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual.

Other related reviews include; The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. John J. Morris (2011) asserts that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure.

2.3 Internal Audit and Financial Performance.

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory & other assets and cooperates harmoniously with other departments

Goodwin & Kent (2006) on the other hand asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization”. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. According to Gupta “the
scope of internal audit is determined by management”. This may however, impair the internal auditor’s objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work.

In accordance to Institute of Internal Auditors (IIA-UK; 1997), independence is applicable to all categories of auditors. This means the opportunity granted to the auditors to report directly to the top authority. Woolf (1986), says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management. However, Millichamp (1993) says, effective internal audit should be carried out by an independent personnel though they are employees appointed by management, for them to work efficiently, they should have scope to arrange priorities and activities have unrestricted access to records, assets and personnel.

According to Bhatia (2003), Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It’s also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system (Subramaniam, 2006). Its objective is to provide management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid & Ashelby, 2002). It is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls.
The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested (John & Morris, 2011). For example, it’s common these days for internal audit to undertake the extensive and continuous task of setting management goals and monitoring its performance (John and Morris, 2011). Emasu (2010) notes that “The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff.

John & Morris (2011) say efficiency and effectiveness of internal audit procedures is not a simple task, successful operation is governed by the extent to which the element of internal audit procedures receive attention which include; expertise, independence, objectivity and totality. Effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured (Harvey, 2004). Zabihollah (2001) argues that, there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls.

Benston (2003) further supplements that perception and ownership, organization and governance framework, legislation, improved professionalism and resources were identified as functions in the public sector derived from the effectiveness of the internal audit procedures. How far internal audit procedures succeed in their effort of effectiveness
is mainly judged by three factors that include; frequency of irregularities committed by the staff in the organization in form of errors or fraud, the promptness with which such irregularities are detected by the authorities and the planning which makes possible repetition of such irregularities in future more difficult (Reid & Ashelby, 2002).

Earnest and Young (1995), the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed. Examples of the due professional care by the internal auditor are the existence of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments and satisfactory arrangements for reporting and following up. According to Hayes et al., 2005 internal control comprises five components; the control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purposes of this study, the research will narrow down to only three components of the internal control system. These are; the control environment, internal audit and control activities.

John & Morris (2011) drawing from Statements of Standard Auditing Practices No. 6 (SAP 6) defines Internal control as “the plan of organization and all the methods and procedures adopted by then management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information”.

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Whittington & Kurt (2001) argue that it is worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity’s assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company’s financial statements do exist, that all the assets presented in the company’s financial statements are recoverable and that the entity’s transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA- Audit and Assurance Services).

Internal control is the term generally used to describe how management assures that an organization does meet its financial and other objectives. Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. (Verschoor, 1999). Hitt, Hoskisson, Johnson & Moesel (1996) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls.

Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation (Whittington & Kurt 2001). The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Hoskisson, Hitt, &
2.4 Control Activities

Ray & Pany (2001) also mention Control activities as another component of internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control according to Ray & Pany is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non-routine monitoring activities such as period audits by the internal auditors (Whittington & Kurt 2001). Generally, internal control is very important to the reliability of financial statements when the internal control system examined closely in timeliness.

Internal control should be effective when examining design can extremely beneficial and is usually for organization management and widely to financial statements (Ogneva, Subramanyam, & Raghunandan, 2007) at present, all kinds of business firms have used internal controls through the formation of policies to ensure a safeguarding assets and profitable business environment especially accounting policy, management policy, and
operational policy. Hence, internal control should be on a regular basis review in all aspects of their company and insert internal controls that will strengthen the company and increase profitability (Skaife et al., 2007).

According to the high internal control system efficiency, reliability of financial reporting is the only leg of the high quality of internal control efficiency system of internal control (Rick Hayes et al, 2005). The meaning is internal controls are important to the company's financial trustworthiness for stakeholders, investors or everyone who is using information from financial reporting for decision. In this research, internal control effectiveness refers to a sufficient and appropriate internal control that firm's system concerning of organizational specific policies, rule, and procedures designed. Internal control effectiveness will be met when the manager designs a reasonable assurance (Reid & Ashelby, 2002) that can achieve company goals and objectives.

Besides, internal control effectiveness is important to the entity level of the firm especially it provides reliable financial information, safeguard assets and records, encourages adherence to prescribes policies and comply with regulatory agencies (IIA, 2006). The basic concepts of internal controls indicate that management must establish and maintain the entity's controls by risk management efficiency, should provide a quality of compliance applied to all employees with potential of intra organization communication, and effective by a continuous monitoring adequacy (Reid & Ashelby, 2002).

2.5 Performance

According to Stoner (2003), performance refers to the ability to operate efficiently,
profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999).

Hitt, et al (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Reid & Ashelby, 2002), or overvaluation of managerial capability in the acquisition process.

2.6 Measures of Financial performance

According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey & Reid & Ashelby (2002) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

Whittington & Kurt (2001) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial
consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments (John & Morris, 2011). This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Dwivedi (2002) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. John and Morris (2011) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

2.6.1 Survival
According to Kotler (1992), strong performer firms are those that can stay in business for a good number of years. Dwivedi (2002) also found out that, the ability of a firm to survive in business is an indicator of good financial performance. Richardson, Sonny & Suzan (1994) found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Kenya there are no good data to indicate how many SMEs collapse within 3 years although is a fact they fail. This is therefore an indicator of poor financial performance.
2.6.2 Liquidity

Hitt, et al (1996) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organization’s liquidity. Other measures of Liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

2.6.3 Accountability

According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

2.6.4 Reporting

Whittington & Pany (2001), talks about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”

They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of
managers. Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.7 Control Environment

Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles).
Control environment has several factors, however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors. For purposes of the study, board of directors will be represented by the Board of Management and the various committees of the Board (Verschoor, 1999). Whittington & Pany (2001) also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls. The independence of audit committee has largely been theoretical in most organizations. Boards of management have on several occasions had very little time for institution affairs, implying that their supervisory role has always been wanting.

Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization’s integrity and ethical values in maintaining an effective control system (Verschoor, 1999). A focus on integrity and ethical values was the principal contribution of Internal Control—Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (on fraudulent financial reporting.)

To trigger independence of auditors, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 78.
This statement requires auditors to perform procedures on every audit to enable them to understand their client’s control environment including integrity and ethical values. In other words, auditors are specifically required to determine whether their clients’ ethical controls are operating. SAS No. 78 points out those ethical values and other elements of the control environment permeate the culture of an organization and affect the strength of all other controls.

2.8 Value of internal control and risk management

An organization’s system of internal control has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders investment and the company’s assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations (Whittington & Pany, 200). A company’s objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it (John, 2011).
2.9 Empirical Studies

A study carried out by Palfi and Muresan (2009) examined the importance of a well organized system of internal control in regard with the bank sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers revealed that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department. A study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study revealed that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks (Simiyu, 2011).

It can be concluded that effective internal controls include; the maintenance of proper accounting records, employee accountability, timely reporting on financial matters, risk mitigation by internal employees, effective communication among employees, efficient and effective utilization of financial and non financial resources and information and communication technology in service delivery (Emasu, 2007). They help to ensure that the organization is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable (Simiyu, 2011). They also contribute to the safeguarding of assets, including the prevention and detection of fraud and misuse of organizational resources (Musa, 2010).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design and methodology that was used in the study. It describes the population that was studied and the sampling design to be used. It also discusses the data collection and analysis techniques. The sample served as a full representation of the entire population to ensure that the study is neither biased nor unsuitable.

3.2 Research Design

A research design is a framework that guides a researcher in studying a research problem (Mugenda, 1999). It guides a researcher to know what to do in the whole of research process. The researcher used descriptive research design to determine the impact of internal controls in performance of technical institutions in Kenya.

3.3 Target Population

The target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population for this study was 49 Technical Training Institutions in Kenya which are registered by the Ministry of Higher Education.

3.4 Sampling Procedure

The study used stratified sampling technique by selecting 37 Technical Training Institutions in Kenya and registered by the Ministry of Higher Education,
Science & Technology. The researcher selected 1 employee from 37 Technical Training Institutions to be the representative of the entire population. The remaining 12 Technical Training Institutions were not included as they were newly established with finance department at their formative stage. 37 employees were used as the representative of 49 Technical Training Institutions in Kenya. Stratified sampling technique was chosen because it exudes the advantages of focusing on important subpopulations and ignores irrelevant ones; it allows the use of different sampling techniques for different subpopulations and improves the accuracy of estimation.

3.5 Data Collection
The study relied mostly on primary data sources and Primary data was collected using semi-structured questionnaires with both close-ended and open-ended questions. Technical Training Institutions in Kenya employees working in the finance department were the respondents in the study. Drop and Pick later method of data collection was employed by the researcher to give respondents sufficient time to respond to the questions of the study.

3.6 Validity and Reliability of Research Instrument
Validity of research instrument was determined by the researcher through seek opinions of experts in the field of study especially the researcher’s supervisor and lecturers in the department of Business Administration at the University of Nairobi. This was facilitated the necessary revision of the research instrument. Reliability of the research instrument was enhanced through a pilot study that was done on 2 Public Technical Institutions operating in Nairobi-Kenya. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that required modification.
3.7 Data Analysis and Presentation

The data collected in the research was edited, coded, classified on the basis of similarity and then tabulated. To permit quantitative analysis, data was converted into numerical codes representing attributes or measurement of variables. Descriptive statistics such as frequency distributions, percentages and frequency tables was used to summarize and relate variables which were attained from the study. The study adopted regression and correlation analysis. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables (Control environment, Internal Audit, Control Activities, Liquidity and Accountability) and the dependent variable (financial performance of technical training institutions in Kenya). Specifically the regression model was of the form.

\[ FP = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6 \]

Where,

\( \beta_0, \beta_1, \beta_2, \beta_3, \beta_4 \) and \( \beta_5 \) are the regression co-efficient

FP –Performance of Technical Institution in Kenya

X1 – Control environment

X2 – Risk assessment

X3 – Control activities

X4 – Information and communications

X5 –Monitoring

Regression analyses were carried out to find out the significant effect of independent variables (X1, X2, X3, X4 and X5) on dependent variables (Financial Performance of Technical training Institutions in Kenya).
CHAPTER FOUR
DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction
This chapter presents the output of data analysis. The presentations are in form of tables and statements. The presentation is according to the objectives of the study and the hypotheses generated.

4.2 Description of the Positions of respondents in the Institution
The study sought and obtained details about the positions held by the respondents in the Institution for purposes of understanding their role in the variables of study. Details of the respondents and their positions are shown in table 4.2.1 below;

Table 4.2.1 Position held in the organization

<table>
<thead>
<tr>
<th>Position held</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management t Committee Member</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td>Finance Officer</td>
<td>21</td>
<td>56.2</td>
</tr>
<tr>
<td>Departmental Head</td>
<td>5</td>
<td>14.2</td>
</tr>
<tr>
<td>Finance and Accounts Staff</td>
<td>10</td>
<td>27.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research data
The analysis results in table 4.2.1 show that majority of respondents in this study are Finance Officers (21), followed by Finance and Accounts staff (10), then Heads of departments (5) and Management committee (1). These represent 56%, 27%, 14% and 3% respectively. From the above description, it can be revealed that the majority of the respondents in this study are those directly responsible for or directly involved the implementation of the Internal Control System. Therefore, their responses are deemed to
reflect what actually takes place in the institution.

Table 4.2.2 Size of the Institution in terms of the Student Population

<table>
<thead>
<tr>
<th>Size of the Institution</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large sized Institution</td>
<td>27</td>
<td>76.4</td>
</tr>
<tr>
<td>Medium sized Institution</td>
<td>10</td>
<td>12.2</td>
</tr>
<tr>
<td>Small sized Institution</td>
<td>10</td>
<td>12.1</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research data

As shown in Table 4.2.2, 76% of the institutions were categorized by respondents to be large based on the student population. While 12% were categorized to be medium and small sized due to student population.

4.3 Descriptive statistics on Internal Control systems.

Table 4.2.3: Mean and Standard deviation of Control Environment

<table>
<thead>
<tr>
<th>Internal Control systems</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial mgt system</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>4.08</td>
<td>.882</td>
</tr>
<tr>
<td>Management Commitment</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.71</td>
<td>.984</td>
</tr>
<tr>
<td>Management’s close Monitoring</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.24</td>
<td>.943</td>
</tr>
<tr>
<td>Management providing feedback</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>2.78</td>
<td>1.004</td>
</tr>
<tr>
<td>Correction of errors in the system</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.21</td>
<td>.935</td>
</tr>
<tr>
<td>Management Integrity</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.29</td>
<td>1.137</td>
</tr>
<tr>
<td>Ethical values</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.11</td>
<td>1.034</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.08</td>
<td>1.124</td>
</tr>
<tr>
<td>Council independence and its committees</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.66</td>
<td>.878</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data

In table 4.2.3 are details of the measures of effectiveness of the control environment under
different key statements obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

The study (as reflected in table 4.2.3) found that the respondents seem to agree that the Institution has an accounting and financial management system in place with a mean value of 4.08 which appears to be close to the maximum rank of 5. This shows that they generally agree about the existence of an accounting system. However, the corresponding standard deviation also revealed a significant value of 0.882. This also shows that there is a clear variation in the responses provided by the respondents about the existence of the accounting and financial management system. Having an accounting and financial management system as reflected by the above results is in line with John J. Morris’ advocacy for an Enterprise Resource Planning system that deliver fast and accurate financial reports with inbuilt controls necessary to ensure accuracy and reliability of information being reported to Shareholders. It is also an indication that Whittington and Pany’s requirement of preparing, verifying and distributing reports to the various management levels is achievable.

From the table 4.2.3 above, respondents seemed to agree that management is committed to the operation of the Accounting and Financial management system as reflected by the mean value of 3.7 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.984 suggests varied responses regarding management’s
commitment to the Accounting & Financial management system. Management commitment to the operations of the Accounting and financial management system rhymes with Whittington and Pany’s assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. It supports the assertion by Whittington and Pany that control environment (especially management philosophy and operating style) is the foundation for all other components of internal control. Management’s commitment to the operations of the internal control system is also supported by Verschoor, (1999) where he notes that “Internal control systems not only contribute to managerial effectiveness but are also important duties of the corporate boards of directors”. Therefore management commitment to the operations of the system is a fulfillment of their obligation as highlighted by Verschoor.

In Table 4.2.3 above, respondents provided their understanding in regard to how management closely monitors implementation of the controls and their perceptions show mean of 3.24, implying that they agree with the statement. But since the mean appears so close to the actual 45 average, then the need to closely focus on the variation. Thus, a standard deviation of 0.943 suggests significant differences in responses as regards management’s monitoring of implementation of internal control system. The finding is in line with Wallace & Kreutzfeldt (1991), Goodwin-Stewart & Kent (2006), and Sarens & De Beelde (2006) all of whom advocate for management (control environment) as the cornerstone for an effective internal control system. Sarens & De Beelde in particular emphasizes the “tone at the top, the level of risk and control awareness” as critical to the success of an internal control system.
The results as reflected in table 4.2.3 show a mean of 2.78. This is below the mean average, implying that respondents disagree as to the statement regarding feedback to junior officers regarding the operation of the system. Consequently, a greater standard deviation figure of 1.004 raises concerns regarding the feedback given to junior officers regarding the operations of the accounting and financial management system. The figure of standard deviation further reveals that the respondents had varied opinion about feedback and this could also mean that besides disagreeing about feedback, they could also be in disagreement with the type of feedback provided by management. The results are at odds with Whittington and Pany (2001)’s requirement for management to include programs for preparing, verifying and distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

The results of the survey in table 4.2.3 suggest that respondents seem to agree that appropriate action is normally taken by management to correct misfeasance in the operations of the system, although the standard deviation of 0.935 provided by the same respondents suggests that they possess varied understanding about the aspect of the measures taken to correct any weaknesses in the controls. This could also imply that measures taken are sometimes, not communicated or formal. Management’s action to correct misfeasance in the system is an indication of management’s commitment to the operation of the internal control system. This is a general (entity-wide) control advocated for by John J. Morris (2011). This can as well be classified as a strategic control advocated for by Hitt, Hoskisson, Johnson and Moesel (1996).
The results of the survey as revealed by Table 4.2.3 suggest that management acts with Integrity. This is evident when the mean of respondents as computed by the system is well above the average (i.e. 3.29). Nevertheless, the corresponding standard deviation of 1.137 suggests that respondents had a significant variation in responses on management integrity in the execution of their role; a highly contentious issue. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section are in tandem with Whittington and Pany (2001)’s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls. This can also be likened to “the control environment setting the tone of the organization by influencing the control consciousness of people” stipulated by Cohen et al., (2002).

The analysis results in table 4.2.3 reveals that to some extent, ethical values are upheld in all management decisions as reflected by a mean value slightly above average, 3.11. However, even the 37 of the respondents seemed to have varied responses regarding ethical values in all management decisions as revealed by a standard deviation of 1.034. Upholding ethical values in management decisions is in line with Cohen et al. (2002) where he state that “the tone at the top refers to a company’s ethical values, management’s philosophy and operating style” which are reflected in the code of conduct or code of ethics.

The analysis of results in Table 4.2.3 reveal a mean of 3.08, implying that the respondents were slightly in agreement in regard to the objectivity and independence of the Audit committees. However, a standard deviation of 1.124 reveals a significant variation in the
opinions which could also relate to not clearly understanding the role of the committee. Audit Committee’s independence is in line with Whittington and Pany (2001)’s requirement for audit committees to be independent from the management of an institution and to possess the requisite experience and status. The independence and objectivity of the audit committee also rhymes well with (DeZoort et al., 2002; & Spira, 2002)’s statement that “the audit committee, as a subcommittee of the board of directors, plays a role in protecting the owners’ interests by monitoring management’s actions, in terms of financial reporting, risk management and internal control”

The results of the survey as reflected in Table 4.6 revealed that the governing council and its committees are independent of management as shown by a mean of 3.66, even though there were variations in responses to this test as revealed by the standard deviation of 0.878. However, the variations in responses do not show a big movement from the mean. This finding is also in line with DeZoort et al., (2002); and Spira, (2002)’s statement that the audit committee, as a 48 subcommittee of the board of directors (Governing Council), plays a role in protecting the owners’ interests by monitoring management’s actions, in terms of financial reporting, risk management and internal control. This role can only be effectively executed if governing council and all its subcommittees are independent. The governing council’s independence was also highlighted by the American Institute of Certified Public Accountants (AICPA) through its Auditing Standards Board through the issuance Statement on Auditing Standards (SAS) No. 78.
4.4 Descriptive statistics on Internal Audit.

Table 4.2.4 Mean and Standard deviation of Internal Audit

<table>
<thead>
<tr>
<th>Internal Audit</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of Internal Audit Dept</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>4.00</td>
<td>.900</td>
</tr>
<tr>
<td>Sufficiently staffed Internal audit dept</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>2.55</td>
<td>.921</td>
</tr>
<tr>
<td>Conduct regular internal audit activities</td>
<td>37</td>
<td>2</td>
<td>4</td>
<td>2.79</td>
<td>1.069</td>
</tr>
<tr>
<td>Report addresses weaknesses</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.13</td>
<td>.844</td>
</tr>
<tr>
<td>Regular reporting of weaknesses</td>
<td>37</td>
<td>1</td>
<td>4</td>
<td>2.92</td>
<td>1.050</td>
</tr>
<tr>
<td>Management discusses Internal audit reports</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.11</td>
<td>.894</td>
</tr>
<tr>
<td>Appropriate recommendations for improvement</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.34</td>
<td>1.072</td>
</tr>
<tr>
<td>Internal auditor visits upcountry centre’s</td>
<td>37</td>
<td>2</td>
<td>4</td>
<td>2.68</td>
<td>.852</td>
</tr>
<tr>
<td>Internal auditor issues upcountry reports</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>2.66</td>
<td>.878</td>
</tr>
<tr>
<td>Degree of autonomy from management</td>
<td>37</td>
<td>1</td>
<td>4</td>
<td>3.08</td>
<td>.882</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

In the Table 4.2.4, the researcher set out to examine the internal audit function (another component of the internal control system) as a way of examining the functionality of the internal control system. The test statements were equally ranked in terms of their mean and standard deviation as a way of interpreting the results. The details of the survey in this regards are discussed as follows;

From the results in table 4.2.4, it is clearly evident that respondent were almost in total agreement as to the existence of the Internal audit function in the Institution as reflected by a mean value of 4.0 which is tending towards maximum value of 5 (i.e. strongly agreeing). However, the standard deviation of 0.9 suggests variations in responses by the various respondents. Virtually all the writers (reviewed) underscore the importance of an internal
audit department in helping an organization achieve its objectives. Notable among these are Subramaniam, (2006), Reid & Ashelby, (2002) and Millichamp (1993) among others. Therefore the finding is in tandem with the reviewed literature.

Results of the survey in table 4.2.4 show a mean of 2.55 which is below the average; this suggests that respondents don’t believe that the internal department is sufficiently staffed. However, a standard deviation of 0.921 suggests varied responses as to whether the internal audit department is sufficiently staffed. The understaffing in the internal audit department could be compensated for by an active and independent Council and its Sub Committee. This is what Gerrit and Mohammad (2010) refer to as “a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal Audit Function”.

From the results of the survey as reflected by Table 4.2.4, respondents seem to disagree as to whether the Internal audit staff conduct regular internal audit activities. This is revealed by a mean of 2.79 which is below the average of 3. However, a standard deviation of 1.069 suggests a significant variation in the responses generated by the respondents. This means that the internal auditor’s role of examining and evaluating the effectiveness, efficiency and the economy of the management control system as advocated by Subramaniam, (2006) may not be achieved. This is however in contrast with findings 4.2.1.2 “Management commitment on the operations of the system” and 4.2.1.3 “Monitoring implementation of Internal Control system”
Results of the survey as reflected in table 4.2.4 suggest that Respondents agree that the Internal audit reports address weaknesses in the internal control system. This is revealed by a mean of 3.13, although the standard deviation of 0.844 seems to suggest variation in the responses generated for the test. This therefore confirms Whittington and Pany (2001)’s suggestion that “internal auditing is performed as part of the monitoring activity of an organization”. This is also in line with Gupta (2001) assertion that “the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities”.

Results of the study in table 4.2.4 suggest that staffs are not sure as to whether internal audit reports are produced regularly. This is revealed by a mean value of 2.92 which is slightly below the average. However, a significant standard deviation of 1.05 which suggests that in as much as staffs are not sure as to whether internal audit reports are produced regularly, they varied greatly in their responses. This could also imply that the staffs might not be aware of audit reporting schedule since they are submitted directly to the vice chancellor, management committee or audit committee of council. The finding does not augur well with Sebbowa (2009)’s suggestion that internal auditing is a consulting activity designed to add value and improve an organization’s operations. This therefore means that Zabihollah (2001)’s assertion of internal audit procedures ensuring reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls may not be achieved.

From the survey, as reflected in table 4.2.4, it can be deduced that respondents slightly
agree that management discusses internal audit reports frequently, this is revealed by a mean value of 3.11, although the standard deviation under the same test revealed a variations in responses generated. Management discussing internal audit reports is an indication of management commitment. It reaffirms Wallace & Kreutzfeldt (1991)’s finding that companies with internal audit functions are well run entities, are more competent in their management and accounting personnel and are subject to better management controls. This is also in line with Earnest and Young (1995)’s statement that the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed.

From table 4.2.4 above, respondents seem to marginally agree with statement regarding internal audit recommendations to management regarding improvement in system of control as reflected by the mean value of 3.34. However, a significant standard deviation figure of 1.072 reveals varied responses from the respondents on the same, implying that they have different opinions about this role played by internal auditor. This could also infer as to whether the internal auditor makes appropriate recommendations for management to improve. The finding is in agreement with Gupta (2001)’s statement that “the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities”.

From the results of the survey as reflected in table 4.2.4 above, respondents did not agree about the internal auditor visiting up-country centers. This is revealed by a mean value of 2.68. It worth noting that in as much as the respondent disagreed with the Internal auditor’s
visit to up country centers regularly, they were tending towards the average value of 3, implying that to some extent the respondents were not sure as to whether the Internal auditor visits up country centers regularly. However, a standard deviation of 0.852 suggests varied responses over the control. Therefore Gupta’s statement of “the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities” may not hold true in this respect.

The results of the survey as revealed by table 4.2.4 in this regard suggest a disagreement by respondents as to whether the internal auditors issues reports on upcountry centers regularly. This is shown by a mean value of 2.66. This is in tandem with the revelation in 4.2.2.8 where respondents didn’t agree that the internal auditor visit up country centers regularly. A closely similar standard deviation of 0.878 seems to emphasize the respondents’ observation in 4.2.2.8, implying those respondents are equally not sure as to whether the internal auditor issues upcountry reports regularly. This finding therefore seems to suggest a failure by the internal audit function in its monitoring role alluded to by Whittington and Pany (2001).

The results of the survey as reflected in table 4.2.4 suggest those respondents are indifferent as to the internal auditor’s independence from management. This is revealed by a mean value of 3.08. However, a standard deviation of 0.882 reveals that there were varied responses from the respondents as to the independence of the internal auditor from management.
4.5 Descriptive statistics on Control activities

Table 4.2.5: Mean and standard deviation of Control Activities

<table>
<thead>
<tr>
<th>Control activities</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear separation of roles</td>
<td>37</td>
<td>2</td>
<td>4</td>
<td>3.42</td>
<td>1.244</td>
</tr>
<tr>
<td>Employees’ work checked by others</td>
<td>37</td>
<td>2</td>
<td>4</td>
<td>3.08</td>
<td>.906</td>
</tr>
<tr>
<td>Appropriate supervision by senior staff</td>
<td>37</td>
<td>2</td>
<td>3</td>
<td>3.47</td>
<td>.893</td>
</tr>
<tr>
<td>Corrective action taken to address weakness</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.21</td>
<td>1.119</td>
</tr>
<tr>
<td>Staff trained to implement system</td>
<td>37</td>
<td>1</td>
<td>4</td>
<td>3.34</td>
<td>.938</td>
</tr>
<tr>
<td>Well developed Chart of Account</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>3.35</td>
<td>1.060</td>
</tr>
<tr>
<td>Information accessed with consent of senior staff</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>2.97</td>
<td>.971</td>
</tr>
<tr>
<td>No expense is incurred in excess of budgeted</td>
<td>37</td>
<td>2</td>
<td>4</td>
<td>3.05</td>
<td>.998</td>
</tr>
<tr>
<td>Variance reports generated with explanations</td>
<td>37</td>
<td>2</td>
<td>5</td>
<td>2.89</td>
<td>1.197</td>
</tr>
<tr>
<td>Security systems safeguards Assets</td>
<td>37</td>
<td>1</td>
<td>4</td>
<td>2.51</td>
<td>1.096</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

In the table 4.2.5 above the researcher set out to examine the functionality of the internal control systems in Technical Training Institutions using control activities as an internal control component. The results were analyzed used mean and standard deviations so as to drawing conclusions from the survey. These are discussed as follows:

The results of the survey as reflected in table 4.8 suggest that respondents agree there is a clear separation of roles while executing finance and accounting functions. This is shown by a mean of 3.42. However a significant standard deviation of 1.244 is a clear manifestation of varied responses from respondents as far as clear separation of roles is
concerned. This is in line with Ray and Pany (2001)’s “suggestion of segregation of duties” such that no one person should handle all aspects of a transaction from the beginning to the end.

To results of the survey as reflected in table 4.2.5 suggest that respondents were indifferent as to whether every employee’s work is checked by others as revealed by the mean value 3.08. However, a standard deviation of 0.906 reveal varied responses from the respondents interviewed as far as checking other employees’ work is concerned. The lack of internal checks within an institution is at odds with Whittington and Pany’s recommendation of “information processing” in which he recommends checks to ensure accuracy and completeness of information being processed.

The table 4.2.5 reveals that respondents agree that there is appropriate supervision of junior staff by their seniors. This is revealed by a mean value of 3.47, though it is not significantly far from the “not sure” position. The standard deviation of 0.893 reveals that there were varied responses from the respondents interviewed. The lack of supervision by senior staff is an indication of deficiencies in strategic controls as advocated for by Hitt, Hoskisson, Johnson, and Moesel (1996) which if not addressed may lead to material internal control weaknesses.

The results in table 4.2.5 above reveal that respondents agree that corrective action is normally taken to address weaknesses as shown by a mean value of 3.21. This value is close to the midpoint position, implying that respondents were almost not sure as to whether corrective action is taken to address weaknesses. However, a significant standard
deviation of 1.119 shows that there are very varied responses as far as responses to this control test was concerned. Action being taken to address weaknesses in the system is an indication of the commitment to system. This is the commitment referred to by Whittington and Pany (2001)

Table 4.2.5 reveals that respondents agree that staffs are trained to implement Accounting and financial management system and this is shown by a mean value of 3.34. However, this seems close the midpoint of 3 implying that the respondents do seem to appreciate internal control activities. Nevertheless, a standard deviation of 0.938, however suggests varied responses from respondents as far as staff training in the implementation of accounting and financial management systems are concerned. Staff being trained in the use of Accounting and Financial management system is an indication of the commitment to the effectiveness of systems of internal control. It is what Verschoor, (1999) recommended as “programs of selection and training of personnel”. The results in table 4.2.5 suggest that respondents agree to a small extent that the Institution has a well developed chart of accounts. This is revealed by a mean of 3.35. However a significant standard deviation of 1.06 suggests that there were varied responses as far as this test concerned. Having a well developed Chart of Account is both a strategic control and a financial control referred to by Hitt, et al; (1996).

The results in table 4.2.5 indicate that respondents were almost indifferent as whether “it is impossible for one staff to have access to all valuable information without the consent of senior staff. This is revealed by a mean value of 2.97, which is very close to the “not sure” position although the standard deviation of 0.971 indicates the respondents varied greatly
as far as this test was concerned. This may be an indication of lack of segregation of duties which may impact on the reliability of financial reports referred to by Whitttington and Pany.

The results in table 4.2.5 above revealed that respondents were not sure as to whether controls are in place to exclude incurring expenditure in excess of allocated funds. This is revealed by a mean value of 3.05 which is very close the average of 3 (i.e. the not sure position). However, the deviation of 0.998 suggests varied responses to the test from the respondents interviewed. The finding could be a failure in the monitoring aspect referred to by Hayes, et al (2005).

The results in table 4.2.5 suggest that respondents disagreed with the test statement that “departmental budgets are reviewed with actual expenditure compared with budgets and explanations for the variances obtained”. This is revealed by a mean value of 2.89. However, in as much as respondents disagreed with the test statement, they were tending towards the “not sure” position of 3. The standard deviation of 1.197 over the same test suggests varied responses from the respondents interviewed. The failure by the Institution to provide budget reviews is at odds with Ray and Pany (2001)’s recommendation for “performance reviews” where he recommends comparing actual performance with budgets, forecasts and prior period performance.

The results of the survey as reflected in table 4.2.5 suggest that respondents disagree with the security system ability to identify and safeguard assets of the Institution. This is revealed by a mean value of 2.51. However, a significant standard deviation of 1.096
suggests that respondents varied greatly in their responses to the test statement. The failure by the system to identify and safeguard assets of the institution does not augur well with Ray and Pany (2001)’s recommendation for “physical controls” (necessary to provide security over both records and other assets.

This section answers objective two of the study. Financial performance of Technical Training institutions in Kenya was examined by analyzing data collected under dimensions of financial performance and computing for the mean and standard deviation of the responses to the statements categorized under liquidity, accountability and reporting. Details of these analyses are shown in table 4.2.6 below;

### 4.6 Descriptive statistics on Financial Performance

**Table 4.2.6: Mean and standard deviation of Liquidity**

<table>
<thead>
<tr>
<th><strong>Financial Performance</strong></th>
<th><strong>N</strong></th>
<th><strong>Min</strong></th>
<th><strong>Max</strong></th>
<th><strong>Mean</strong></th>
<th><strong>Std Deviation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enough cash to meet obligations</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>1.97</td>
<td>1.213</td>
</tr>
<tr>
<td>Fees charges appropriate</td>
<td>37</td>
<td>1</td>
<td>4</td>
<td>2.59</td>
<td>.956</td>
</tr>
<tr>
<td>Fees dully collected</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>2.64</td>
<td>1.046</td>
</tr>
<tr>
<td>Outstanding fees dully paid</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>2.97</td>
<td>1.142</td>
</tr>
<tr>
<td><strong>Valid N (list wise)</strong></td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Primary data**

From the information revealed by table 4.2.6, respondents believe that the Institution doesn’t have enough cash to meet its obligations effectively as and when they fall due. This is revealed by a mean value of 1.97. However, a significant standard deviation value of 1.213 under the same test revealed varied responses from the respondents interviewed. The lack of cash does not rhyme with Verschoor. (1999)’s assertion of “financial soundness” as
a measure of performance.

From table 4.2.6, it can be revealed that the fees charged by the Institution are not appropriate to cover the costs of running the courses. This is shown by a mean value of 2.59 although the standard deviation of 0.956 under the same test revealed varied responses from the respondents. This has implications on the financial soundness of the Institution and it may hinder investment as mentioned by Verschoor (1999).

From the information collected from respondents according to table 4.2.6, it clear that all Technical Training institutions in Kenya fees are not dully collected. This is revealed by a mean value of 2.64. However, a standard deviation of 1.046 reveals varied responses from the respondents interviewed over the same test. The information revealed could be an explanation as to the inadequacy of the cash position of the institution as revealed by the finding under 4.3.1.1 (Cash availability within the Institution). This means that the financial soundness alluded to by Verschoor (1999) may not be achieved.

Table 4.2.7: Mean and Standard deviation of Accountability

<table>
<thead>
<tr>
<th>Accountability</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>System identifies Grant receipts &amp; expenditure</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>3.00</td>
<td>1.054</td>
</tr>
<tr>
<td>Assets have increased over time</td>
<td>37</td>
<td>1</td>
<td>5</td>
<td>3.00</td>
<td>1.130</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Primary data**

From table 4.2.7, it is clearly evident that, respondent were indifferent as to whether the
Institution’s accounting system adequately identifies receipts and expenditures of grant contracts. This is revealed by a mean value of 3.00 which is the “not sure” position according to the Likert scale. However, the standard deviation of 1.054 reveals that respondents varied in their responses to the test. The results in table 4.2.7 reveal that respondents were not sure as to whether the institutions’ assets have increased over time. This is shown by a mean value of 3.00. However, a significant standard deviation of 1.130 reveals that in as much are respondents were not sure in their responses, they varied greatly in their responses to test statement. This casts doubt on the financial soundness referred to by Verschoor (1999)

4.7 Relationship between Internal Control systems and financial performance

This section answers objective of the study. The relationship between internal controls systems and financial performance in Technical Training institution in Kenya was investigated using control environment, internal audit and control activities as dimensions for internal control systems while liquidity, accountability and reporting were for financial performance.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control environment</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Audit</td>
<td>0.217*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Activities</td>
<td>0.301**</td>
<td>0.502*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.294**</td>
<td>0.091*</td>
<td>0.291**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountability</td>
<td>0.338*</td>
<td>0.447**</td>
<td>0.411**</td>
<td>0.094**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Reporting</td>
<td>0.276**</td>
<td>0.389**</td>
<td>0.299**</td>
<td>0.179**</td>
<td>0.266**</td>
<td>1</td>
</tr>
</tbody>
</table>
**σ=0.01 (correlation is significant at 0.01 level (2-tailed))
* σ=0.05 (Correlation is significant at 0.05 level (2-tailed))

The correlation table presents the relationship between dimensions of Internal Controls measured by control environment, Internal audit and control activities against Financial performance, measured by liquidity, accountability and Reporting. The results show that all the dimensions relate positively. Specifically, control environment relates positively with liquidity, accountability and reporting (r = 0.294, p < 0.01; r = 0.338, p < 0.01; r = 0.276, p < 0.01) respectively. These suggest that the control environment relates positively with financial performance.

### 4.7.1 Control environment is related with financial performance

Table 4.2.8 above shows that the control environment is positively related to liquidity with r = 0.294 and standard error, p < 0.01, the control environment is positively related with accountability with r = 0.338 and standard error, p < 0.01, and the control environment is positively related to reporting with r = 0.276 and p < 0.01. The results seem to agree with Whittington and Pany’s assertion of the control environment setting the tone of the organization. The control environment (as reflected by the audit committee) is what DeZoort et al., (2002) referred to as “protecting the owners’ interests by monitoring management’s actions, in terms of financial reporting, risk management and internal control”. Owners’ interests can only be protected through accountability and reporting. This suggests that the Control environment is related with financial performance and therefore hypothesis one (H1), *there is a relationship between the control environment and financial performance of Technical Training institutions in Kenya* is accepted.
4.7.2 Internal audit and financial performance.
The results in table 4.11 indicate a positive relationship between internal audit and liquidity with $r = 0.091$ and $p < 0.01$, internal audit is positively related to accountability with $r = 0.447$ and $p < 0.01$, and positively related to reporting with $r = 0.389$ and $p < 0.01$.

These results seem to agree with Sebbowa (2009) where he notes that “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. This is also in line with Whittington and Pany assertion that “internal auditing is performed as part of the monitoring activity of an organization”. Since there is a positive relationship between the internal audit function and the dimensions of financial performance; liquidity, accountability and reports, hypothesis two ($H2$); an effective internal audit function is related with the financial performance of Technical Training institutions in Kenya is accepted.

4.7.3 Internal Control activities and financial performance.
Results in table 4.11 above indicate a positive relationship between internal control activities as a component of internal control systems with liquidity, $r = 0.291$ with a standard error, $p < 0.01$. Internal control activities further relate positively with accountability, $r = 0.094$ with a standard error, $p < 0.01$ and with reporting, $r = 0.299$ with a standard error, $p < 0.01$. This seems to agree with Ray and Pany (2001)’s belief that “control activities are policies and procedures that help ensure that management directives are carried out”. Therefore, internal control activities affect financial performance, thus hypothesis three ($H3$), Functionality of internal control activities and financial performance of Technical Training institutions in Kenya is accepted.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction
This chapter presents summaries of the study findings as per the study objective, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.2 Summary findings
This part presents the summarized results and interpretation (findings) based on the study objective as established at the beginning of the study.

5.2.1 Functionality of the internal control system
The study found out that management of the institution is committed to the controls of the Technical Training institutions in Kenya and they actively participate in monitoring and supervision of the activities of the Technical Training institutions in Kenya. The study also reveals that all the activities of the Institution are initiated by the top level management. On the effectiveness of the internal audit, the study found out the internal audit department is not efficient, doesn’t conduct regular audit activities and doesn’t produce regular audit reports. They however, agree that the few reports that are produced in the department address the weaknesses in the system. The study also found that the internal audit
department is understaffed and this could be one of the reasons for not producing reports as expected. Regarding control activities, the study found that, there is a clear separation of roles, supervision of activities by senior staff, weaknesses that are realized are addressed, and there is a training program for capacity building in the institution. However, the study also found out that there is lack of information sharing in the Technical Training institutions and also no security measures are put in place to safeguard the assets of the Technical Training institutions.

5.2.2 The Financial Performance of the Institution

The study found out that the Institution does not have enough cash to meet its intended goals, and that the fees that the Technical Training institutions in Kenya charges on the students are not appropriate to cover the costs. The study further reveals that all the fees that are supposed to be remitted to the Technical Training institutions in Kenya are not collected. However, it was also found that all revenues and expenditures are properly classified, and that assets of the Technical Training institutions in Kenya have generally increased.

5.2.3 Internal Control System and Financial Performance

The study examined and established a significant relationship between internal control system and financial performance. This relationship was examined through the dimensions of internal control systems and that of the financial performance selected for this particular study. The dimensions of internal control systems (control environment, internal audit, and control activities) were linked to the dimensions of performance (liquidity, accountability, and reporting). Details show that control environment is linked to liquidity (r = 0.294, p ≤
0.01), control environment is also linked to accountability ($r = 0.338$, $p \leq 0.05$), and control environment is related with reporting ($r = 0.0276$, $p \leq 0.01$). Similarly, the study found that internal audit as a dimension of internal control system, is related with all the dimensions of financial performance in the following details; internal audit and liquidity are related ($r = 0.091$, $p \leq 0.01$), internal audit is related with accountability ($r = 0.447$, $p \leq 0.01$), and internal audit and reporting have significant relationship ($r = 0.389$, $p \leq 0.01$). In addition, control activities as a dimension of internal control system and all the dimensions of financial performance are related; control activities and liquidity are related ($r = 0.291$, $p \leq 0.01$), control activities and accountability are related ($r = 0.411$, $p \leq 0.01$), and control activities and reporting are related ($r = 0.299$, $p \leq 0.01$).

### 5.3 Conclusions

Based on the findings of the study, it is concluded that the institutions have an effective internal control system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the upcountry centers which clearly has affected their efficiency as revealed by this study.

On financial performance of the Technical Training institutions, the study concludes that the liquidity position of the Technical Training institutions in Kenya is not appropriate, details of which are directly revealed in the study, although the study also reveals an improved assets value as well as classification of the TTIs revenues and expenditures. The final conclusion of this study is that there is a significant positive relationship between
internal control system (control environment, internal audit, and control activities) with financial performance (liquidity, accountability, and reporting).

5.4 Recommendations

Since it was evident in the study, that the staffing level in the internal audit department is not adequate to cover the entire Technical Training institution in Kenya, the set up is evidenced by not conducting regular audit activities, not operating efficiently as well as the TTIs reports not being regular, the study therefore recommends competence profiling which should be based on what the Technical Training institutions in Kenya expects the internal audit to do and what appropriate number of staff would be required to do this job.

The study also recommends that Technical Training institutions in Kenya to establish and manage knowledge/information management system within the institution so as to enable all parties within the institution to freely access and utilize the official information.

The study also recommends that the institutions establishes a strategy for improving the generation of additional finances for the operation of the Technical Training institutions in Kenya. This could be done through writing projects, other competitive endeavors which are directly aimed at winning funds for the Technical Training institutions in Kenya. Finally, the study recommends that there should be a deliberate attempt to conduct a study which establishes the relationship of management’s commitment based on factors that are external to the Technical Training institutions in Kenya such as behavioral issues of the students, financial stress of parents, and information communication technology.
5.5 Suggestions for further research

1. The influence of ICT/MIS on the effectiveness on internal control system

2. The effect of cultural and behavioral factors on the performance of Technical Training institutions in Kenya
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APPENDICES

Appendix I: Introductory Letter

C/O University of Nairobi,
P.o Box 30197-00100,
Nairobi.
Kenya.

TO WHOM IT MAY CONCERN

Dear Respondent,

REF: MBA RESEARCH STUDY

I am a student pursuing a Masters degree in Business Administration at the University of Nairobi. In partial fulfillment of the requirements to the award of the Masters degree, I am required to carry out a study on “Effects of Internal Controls on Financial Performance of Technical Training Institutions in Kenya”

The choice is based on your strategic importance in the achievement of organizational goals hence improved performance of the Institution in terms of efficiency and effectiveness. I kindly request your assistance by availing time to respond to the questionnaire. A copy of the final report will be made available to you at your request. The information given will be treated with utmost confidentiality for the purpose of this study only. Your assistance will be highly appreciated.

Thank you in advance.
Appendix II: Questionnaire

SECTION A: Organizational Demographics
Please supply the required data by filling in the blanks where space is provided or by ticking [✓] against the most appropriate answer.
I respondents name.............................................................................................................. [Optional]

1. **What position do you currently hold in the Organization/Institution that you work for?**
   a) Management Committee member [✓]
   b) Finance Officer [✓]
   c) Departmental head [✓]
   d) Finance and Accounts staff [✓]

2. **For how long has this Institution has been operating?**
   1. Less than 5 years [✓]
   2. 5 – 10 years [✓]
   3. 11 – 15 years [✓]
   4. 16 – 20 years [✓]
   5. Over 20 years [✓]

3. **What is the size of your Institution?**
   a) Large sized Institution [✓]
   b) Medium sized Institution [✓]
   c) Small sized Institution [✓]

SECTION: B
To examine the functionality of Internal Control systems of Technical Training Institutions in Kenya

Please rank the following statement on Likert Scale ranging from No Extent to Very Great Extent

Where;
1= No Extent
2= Little Extent
3= Moderate Extent
4= Great Extent
5= Very Great Extent

4. Rank the extent to which your Institution controls the environment?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Our institution has an accounting and financial management system</td>
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<tr>
<td>Management is committed to the operation of the system</td>
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<tr>
<td>Management closely monitors implementation of Internal control systems in our institution</td>
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<tr>
<td>Management provides feedback to the junior officers about the operation of the system</td>
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<tr>
<td>Appropriate measures are taken to correct misfeasance in operation of our Accounting &amp; Finance Management System</td>
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<tr>
<td>Management acts with a great degree of integrity in execution of their roles</td>
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<tr>
<td>Ethical values are upheld in all management decisions</td>
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<tr>
<td>Our Institution has an objective, independent and active audit committee</td>
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<tr>
<td>Our Board of governors and its committees are independent of Management</td>
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</table>
5. Rank the extent to which your Institution practices the following internal audits?

<table>
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<tbody>
<tr>
<td>Our institution has an internal audit department</td>
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<tr>
<td>Our internal audit is sufficiently staffed</td>
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<tr>
<td>Internal audit staff conduct regular audit activities in our institution</td>
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<tr>
<td>Internal audit report address weaknesses in our internal control system</td>
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<tr>
<td>Internal audit reports are produced regularly</td>
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<tr>
<td>Management discusses internal audit reports frequently</td>
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<tr>
<td>Internal auditor makes appropriate recommendations for management to improve</td>
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<tr>
<td>Internal audit department visits up-country centers often times</td>
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<tr>
<td>Internal auditor issues Up-country reports regularly</td>
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<tr>
<td>Internal auditor performs his duties with a greater degree of autonomy and independence from management</td>
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</tbody>
</table>
6. Rank the extent to which your Institution practices the following control activities?

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</thead>
<tbody>
<tr>
<td>Our institution has clear separation of roles</td>
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<tr>
<td>Every employee’s work check on the others</td>
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<tr>
<td>There is appropriate supervision by senior staff on the work of their juniors</td>
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<tr>
<td>Corrective action is taken to address weaknesses</td>
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<tr>
<td>Staff are trained to implement the accounting and financial management system</td>
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<tr>
<td>Our Institution has a well developed Chart of Account</td>
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<tr>
<td>It is impossible for one staff to have access to all valuable information without the consent of senior staff</td>
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<tr>
<td>Controls are in place to exclude incurring expenditure in excess allocated funds</td>
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<tr>
<td>Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given</td>
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<tr>
<td>Our security system identifies and safeguard Institutional Assets</td>
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</tbody>
</table>
7. Rank the extent to which your Institution measure financial performance?

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<tbody>
<tr>
<td>Our institution has enough cash to meet its obligations effectively (as and when they fall due)</td>
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<tr>
<td>The fees charged by our institution is appropriate to cover the costs of running the courses</td>
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<tr>
<td>All Institutional fees are dully corrected</td>
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<tr>
<td>Outstanding fees are dully paid in time (before students sit for exams)</td>
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<tr>
<td>Our Institution’s Accounting system adequately identifies the receipts and expenditure of grant contracts</td>
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<tr>
<td>The Institution’s asset base has greatly increased over time</td>
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</tbody>
</table>
Thank you for your participation.

Appendix III: List of Technical Training Institutions in Kenya

<table>
<thead>
<tr>
<th>College Name</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eldoret technical training institute mid-town campus</td>
<td>Eldoret</td>
</tr>
<tr>
<td>2. Kitale Technical Training Institute kapenguria campus</td>
<td>Kitale</td>
</tr>
<tr>
<td>3. CHRISTIAN INDUSTRIAL TRAINING CENTRES</td>
<td>Nairobi</td>
</tr>
<tr>
<td>LVCT Training Institute</td>
<td>Kilimani Business Centre, Kirichwa Road</td>
</tr>
<tr>
<td>4. Technical Institute - Kenya</td>
<td>Nairobi</td>
</tr>
<tr>
<td>5. Meru technical training institute</td>
<td>Meru</td>
</tr>
<tr>
<td>6. Rehema Technical Training Institute</td>
<td>Meru</td>
</tr>
<tr>
<td>7. Mabati Technical Training Institute</td>
<td>Mariakani</td>
</tr>
<tr>
<td>8. Likoni Community Technical Centre</td>
<td>Mombasa</td>
</tr>
<tr>
<td>9. Star Technical Institute</td>
<td>Machakos</td>
</tr>
<tr>
<td>10. Mwalimu Technical College and Driving School</td>
<td>Machakos</td>
</tr>
<tr>
<td>11. Katoloni Technical Training College</td>
<td>Machakos</td>
</tr>
<tr>
<td>12. Kaani Technical and Computer College</td>
<td>Machakos</td>
</tr>
<tr>
<td>13. Athi River Technical Training Institute</td>
<td>Athi River</td>
</tr>
<tr>
<td>15. Watulizeni Technical Training Centre</td>
<td>Mariakani</td>
</tr>
<tr>
<td>16. Eldoret Technical Training Institute</td>
<td>Eldoret</td>
</tr>
<tr>
<td>17. NAKURU NYS COLLEGE</td>
<td>NAKURU</td>
</tr>
<tr>
<td>18. NYS TECHNICAL COLLEGE</td>
<td>Nairobi</td>
</tr>
<tr>
<td>19. Kingsbridge institute of Technologies</td>
<td>Eldama Ravine</td>
</tr>
<tr>
<td>20. Kirinyaga technical institute</td>
<td>Kerugoya</td>
</tr>
<tr>
<td>21. NYS Technical College, Mombasa</td>
<td>Mombasa</td>
</tr>
<tr>
<td>22. NYS College, Gilgil</td>
<td>Gilgil</td>
</tr>
<tr>
<td>Number</td>
<td>Training Institute Name</td>
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<tr>
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<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>23</td>
<td>NYS College, Naivasha</td>
</tr>
<tr>
<td>24</td>
<td>Kenya Armed Forces Technical College</td>
</tr>
<tr>
<td>25</td>
<td>YMCA National Training Institute</td>
</tr>
<tr>
<td>26</td>
<td>Wote Technical Training Institute</td>
</tr>
<tr>
<td>27</td>
<td>St. Francis Technical Training Institute Asumbi</td>
</tr>
<tr>
<td>28</td>
<td>Machakos Technical Training Institute for the Blind</td>
</tr>
<tr>
<td>29</td>
<td>Embu Technical Training Centre</td>
</tr>
<tr>
<td>30</td>
<td>Bushiangala Technical Training Institute</td>
</tr>
<tr>
<td>31</td>
<td>Christian Industrial Training College</td>
</tr>
<tr>
<td>32</td>
<td>Keroka Technical Training Institute</td>
</tr>
<tr>
<td>33</td>
<td>North Eastern Province Technical Training Institute</td>
</tr>
<tr>
<td>34</td>
<td>Bungoma Technical Training Institute</td>
</tr>
<tr>
<td>35</td>
<td>Raybridge College</td>
</tr>
<tr>
<td>36</td>
<td>Edu-Global Training Institute (ETI) Limited</td>
</tr>
<tr>
<td>37</td>
<td>Kenya Industrial Training Institute</td>
</tr>
<tr>
<td>38</td>
<td>Mathenge Technical Training Institute</td>
</tr>
<tr>
<td>39</td>
<td>Meru Technical Training Institute</td>
</tr>
<tr>
<td>40</td>
<td>Sangalo Institute of Science and Technology</td>
</tr>
<tr>
<td>41</td>
<td>Kenya Textile Training Institute</td>
</tr>
<tr>
<td>42</td>
<td>Rwika Technical Institute</td>
</tr>
<tr>
<td>43</td>
<td>kabete technical training institute</td>
</tr>
<tr>
<td>44</td>
<td>St. Joseph Mwala Youth Polytechnic</td>
</tr>
<tr>
<td>45</td>
<td>Makutano Technical and Driving School</td>
</tr>
<tr>
<td>46</td>
<td>Institute of Applied Technology</td>
</tr>
<tr>
<td>47</td>
<td>Kiirua Technical Training Institute</td>
</tr>
<tr>
<td>48</td>
<td>P.C.E.A Suburb College</td>
</tr>
<tr>
<td>49</td>
<td>Kenya Christian Industrial Training Institute KCITI</td>
</tr>
</tbody>
</table>