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Assessment of Internal Control Practices on Financial Performance of State Corporations in Kenya

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Abstract

Purpose: The purpose of this study was to assess the influence of internal control practices on financial performance of state corporations in Kenya. State corporations have been identified as important drivers in accelerating national growth and development as well as improving delivery of public services. However, their performance has over the years been a matter of public concern.

Methodology: The study used descriptive research design. A study population of 561 was collected and a sample of 234 was selected for the study randomly using Yamane (1967) formula. It involved collection of primary data on segregation of duties, transactional authorization, independent checks, documentation and records. Secondary data was collected as well to assess the performance of the state corporations. Data was obtained randomly from the corporations and analyzed using descriptive statistics and regression analysis and the outcomes were shown through tables.

Findings: Upon analysis of data collected, findings showed that internal control practices significantly influenced the financial performance of state corporations in Kenya. The internal control practices had a significant influence on the financial performance of state corporations.

Unique Contributions to Theory, Practice and Policy: It was concluded that these internal control factors were critical and needed to be embraced so as excellent financial performance of state corporations can be realized. The study recommended that the management should continually assess the risk, monitor control implementation, and modify controls as needed in order to identify and establish effective controls.

Keywords: *Internal Control Practices, State Corporations, Financial Performance*

INTRODUCTION

Measures taken by an institution to guarantee that its objectives, aims, and initiatives are being met are referred to as internal controls (Ejoh & Ejom, 2014). To ensure that an institution's goals are met with reference to the quality of financial accounting, operational efficiency, and adherence to relevant laws and policies, internal controls are procedures formulated and constructed by those in control of progressive accountability, managerial staff and other support staff (Njiru, 2016). Internal control effectiveness relies on financial reporting dependability to guarantee that transactions and accounting are suitable, legitimate, accurately documented, comprehensive, and timely. According to a common notion, internal control systems increase reporting and also lead to trustworthy reports, and that in turn improves the accountability functions of administration of an organization. Organizations can better achieve their strategic goals if they use adequate performance indicators, as defined by (Amaka, 2012).

Ray and Kurt's notion of internal control systems will serve as the basis for this investigation. Although internal control mechanisms are various, this research only focused on the Control Environment, Internal Audit, and Performance monitoring; financial achievement were examined from three points of view: Liquidity, Transparency and Accounting" (Emasu, 2010). Financial management is concerned with how an organization's resources are managed, tracked, and evaluated. Transparency in financial evaluation, timely feedback on the achievement of operational or strategic goals, and adherence to legal, administrative, and ethical requirements are all part of internal administration aims. Definite results may be achieved via the use of internal control processes. There are several benefits to conducting internal audits such as ensuring an operational efficiency, profitability, and resource use. Donald and Delno (2009) discuss the use of three accounting-based performance metrics: ROA, ROE, and ROS (ROS). Internal controls takes into effect the organization's structure, work and authority flows, people and management information systems.

A successful non-profit entity is one that has a clear purpose and is capable of adjusting to changing circumstances. The key to staying ahead of the competition in a fast-paced environment is to build organizations that are adaptable, high-performing, and always adapting. Financial or non-financial metrics may be used to assess performance. Return on assets, return on sales, return on equity, return on investment, return on capital used, and sales growth are all financial indicators of company success. Profitability, overall sales, customer base, introduction of new products, and connectivity within and beyond the institution are all examples of non-financial institutional performance indicators (Mugo, 2013).

State corporations usually referred to as Parastatals (in Kenya) have the authority to operate and focus on a specialized mandate to boost public service provision established by State Corporations Act section 446 of the laws of Kenya. Though the Council of Directors or their equivalent governing bodies are responsible for supervising the daily operations, they function within the overall supervision of their respective Ministries (GoK, 2011). Currently, there are around 187 state corporations divided into seventeen broad operational classes based on mandate and core roles in Kenya, including finance companies, commercial/manufacturing companies, regulatory entities, schools, training and research companies, service companies, growth authorities and tertiary education authorities. As a result of the lapse of time as well as the creation of new companies, the total number of state corporations could have changed (GoK, 2011). The guidelines also recommend that all organizations should have a corporate strategy with clearly defined goals, a set of principles, priorities and a purpose.

Statement of the Problem

Internal control is fundamentally a corporate management system of the company dependent on the integrity of internal management statements that it could be to monitor efficiency and also impacts the dependability of financial statements both in the internal and external's organization (Gerrit and Mohammad 2010). In order to achieve corporate objectives, avoid theft of assets, allow the creation of trustworthy reports and assure adherence to policies and guidelines, corporations set up standard operating procedures (Emasu, 2010). Some state firms continue to function mediocrely, improving their services just little. However, the public's perception of their effectiveness has shifted over time (Obong'o, 2009). Because of this, the government now under great initiatives to raise service performance, reduce costs, and increase transparency for taxpayers. In terms of internal procedures, several of the difficulties that have been encountered include difficulties with liquidity and fraudulent accusations. It is the government's goal to ensure that state-owned enterprises provide quality services at reasonable pricing. As a result of soaring operational costs, budget cutbacks, and decreased funding, over half of state businesses are now insolvent. This has an adverse impact on Kenyan citizens ' wellbeing and might also mean that the 2030 dream is not achieved. Nyakundi, Nyamita and Tinega (2014) conducted a study research on the resultant effect of internal control structures on the financial output and performance of SMEs with a focus on Kisumu County. With the prior research providing useful information on the influence of internal control practices, it provides little information on how the activities can be applied in the state corporations to improve their services. Consequently, there is a need to fill this knowledge gap by undertaking a study that aimed at answering the following research question: how does internal control activities influence the financial performance of state corporations in Kenya?

Objective of the Study

The study sought to assess the influence of internal control practices on financial performance of state corporations in Kenya.

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Justification of the Study

The improvement and development of state corporations is vital in any nation as it brings about social and economic development to the citizens. The contribution of these organizations to the state is tangible owing to the affordability of the services they offer to the population. Consequently, growth in the knowledge on the various strategies that can be used to improve the performance of these corporations is vital. This necessitates on the research on how internal control practices can impact the performance of state corporations.

LITERATURE REVIEW

Theoretical Framework

Agency Theory

"In 1973, Stephen Ross and Barry Mitnick established the agency hypothesis. Companies, according to Agency Theory, are required structures for the maintenance of contracts, and it is feasible to exert control over agents via firms, hence minimizing managerial opportunism. However, the theory acknowledges the unfavorable choice and behavioral hazard characterized as the agent's inadequate information about the connection, interests or productivity at work. Sarbanes-Oxley Act of 2002 (SOX) compels corporations to report on the efficacy of their internal controls over finance monitoring as part of a comprehensive endeavor to decrease fraud and reestablish credibility to the financial reporting processes. The incompatibility between a principal's and an agent's degrees of tolerance for risk is also another important topic often discussed by agency theory. Agency theory focuses on two important sources of conflict: differences in objectives and differences in risk sensitivity. The incompatibility between a principal's and an agent's degrees of tolerance for risk is also another important topic often discussed by agency theory. According to agency theory criticism, proposed control systems are not only costly, but also monetarily useless, since procedures safeguarding shareholders' values may compromise with the implementation of deliberate choices, limit collective activities, or corrupt the system (Eisenhardt, 1989).

Stewardship Theory

Donaldson and Davis established the stewardship hypothesis (1989). Sociology and psychology's stewardship theory states that "a steward maintains and maximizes shareholders' wealth via the performance of the company and its production, since it considerably maximizes the transfer functions of its steward." Instead of emphasizing the perspective of individuality, as in models of agency, stewardship-theory highlights the role of management as stewards and infuses their goals into the firm (Donaldson & Davis, 1991). Hence, stewardship theory differs significantly from the agency model in that it places no emphasis on the establishment of an internal audit department, while the latter does. Administrators of higher education institutions work as stewards of their schools' stakeholders, customers, creditors, customers, and staff, according to the steward theory. Stewardship theory has several drawbacks, such as the notion that the principal will have to spend more time including the steward in fixing problems, formulating collaborative decisions, and exchanging information with the steward (Van Slyke, 2006). It's been questioned, too, much as the doctrine of free will.

Empirical Literature

To find out if sanctions and other forms of internal control had any impact on workers' willingness to commit fraud, Bare (2016) used an analytical technique with an emphasis on monitoring and supervision operations. Both managerial and non-management personnel were surveyed. The findings demonstrated that perpetrating fraud is more expensive when there are safeguards in place. Because of this, an employee must be able to justify committing fraud in a workplace where there is a lot of control activity. Control actions are a 'least cost' fraud deterrence for non-managerial personnel, whereas maximal fines are the 'least cost' deterrents for supervisors. The findings show that detective controls are necessary for preventative control measures like duty separation to be successful.

A governmental corporation's performance is defined as the degree to which it has met or exceeded its stated goals. Citizens, according to Ejoh and Ejom (2014), are the primary customers and benefactors of public service operations, and as such, they should be involved in the assessment of that achievement. At the commencement of each fiscal year, the effectiveness of government agencies is evaluated by comparing their actual results to their stated goals. The disparities in scores obtained, weighted rankings, and composite ratings are all addressed.

Abdi (2015) examined the effect in private commercial banks of Mogadishu of the process of internal controls on financial performance. Age, gender, qualification and experience were the population profile of the survey participants. The key goals were to test the efficiency of Mogadishu private banks ' internal controls and to investigate the financial performance of Mogadishu's private banks. The study was based on 33 target population in Mogadishu. Descriptive analyzes were used in particular by accountants, directors of finances, chief cashiers, internal auditors and private bank managers. As a research tool, it manages the questionnaire. The results of the study show that the majority of Mogadishu's private banks have enough capital to achieve their expected objectives. A clear division of responsibilities also exists. In this report, internal auditors accomplish their duties easily, effectively and consistently.

The financial results of Kenyan technical training institutes was examined by Mugo (2013). The study revealed that financial reporting accuracy is important for efficiency of internal controls. Transactions and bookkeeping should be adequately and reasonably authorized, accurate, properly recorded, detailed and on-time to ensure this. The transactions should be all authorized before any payments are done on the account of the institution. The authority flows should be well outlined in efforts to ensure there is on-time and accurate transaction to ensure that despite the transactional authorization procedures, the transactions are on-time.

In Nairobi County, Kamwenji (2013) looked at the impact of implementing International Financial Reporting Standards (IFRS) on deposit-taking SACCOS' credibility of accounting records. The research found that the large percentage of SACCOs were open and honest in their disclosure and presentation of financial statements, and that the presentation of accounting information was consistent with other institutions that had embraced IFRSs. There were no significant differences between the accounts of SACCOs and other institutions that use IFRS. With the implementation of IFRSs, SACCOs were able to better prepare and deliver their financial statements and other disclosures on time. As a result, the financial statements and other disclosures now include more relevant, reliable, and understandable accounting information.

In 2014, Wanjala, Bwisa, Wandera, and Wanyama investigated the impact of bookkeeping management practices on the business performance of micro and small butchery firms in Kimilili sub county, Kenya; According to the survey, the majority of micro and small butchery firms were unable to effectively manage their finances due to a lack of accounting expertise and education. SMEs' record-keeping methods were shown to have a favorable impact on their business success, according to the findings of the study. The interaction between businesses and bookkeeping methods has a significant impact. According to the findings of the study, accounting is a critical component of a company's performance.

Multiple investigations have examined the effect of internal control on financial performance in various firms throughout the globe, including those by Ejoh and Ejom (2014), Kamwenji (2013), Mugo (2013), and Wanjala, Bwisa, Wandera, and Wanyama (2014). Consequently, there is a gaps check in the empirical analysis of the variables of internal control processes. This research aims to fill up the gaps in our knowledge. Furthermore, the emphasis of this research will was on Kenyan state businesses as a whole.

Conceptual Framework

Independent Variable **Dependent Variable**

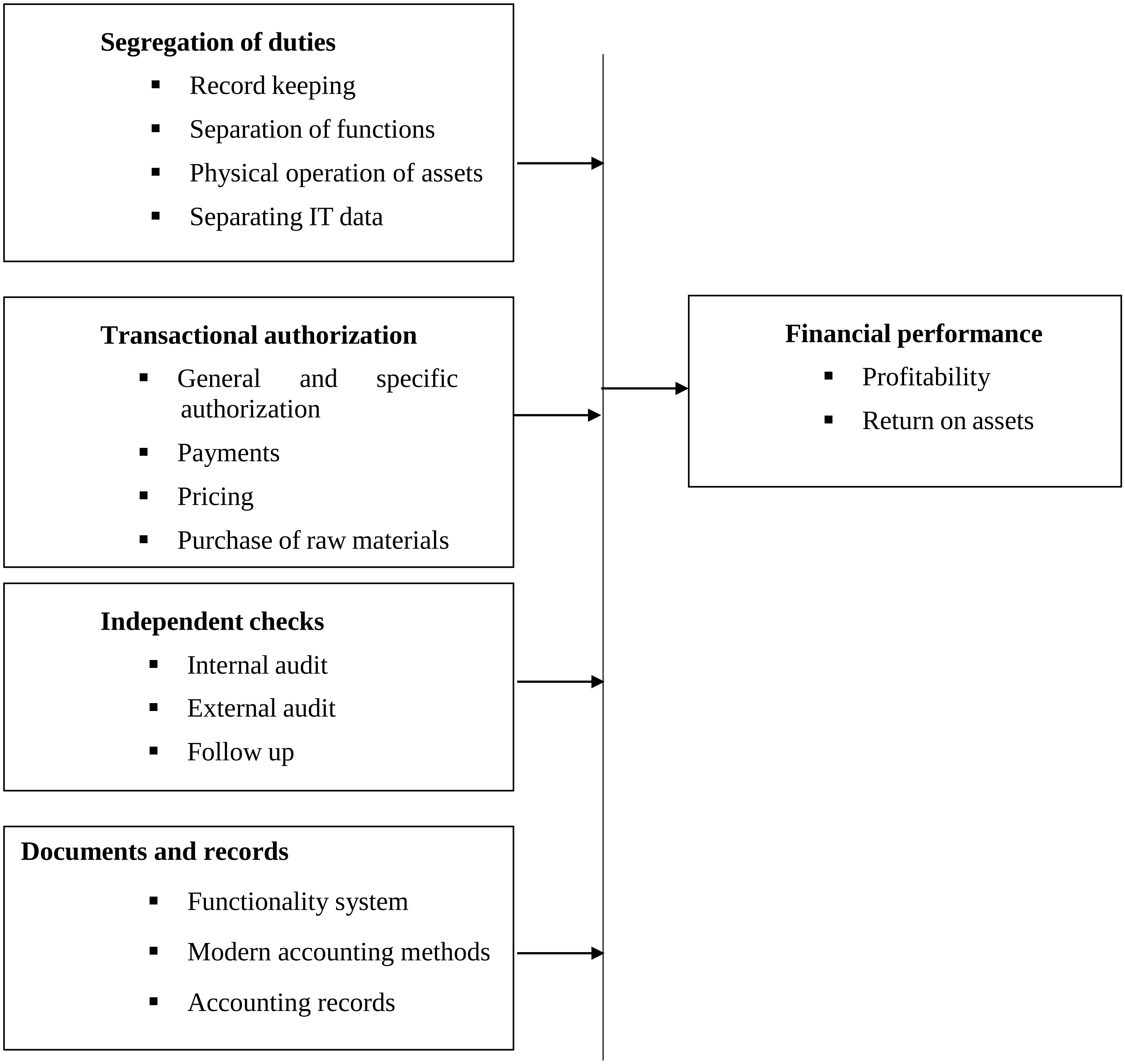

Figure 1: Conceptual Framework

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METHODOLOGY

This study used a descriptive survey design. The target population for this study was senior managers of the state corporations in Kenya, by virtue of them being vote holders in their respective parastatals. The total number of state corporations in Kenya is 187. The study further focused on the heads of finances, human resource and auditing. Therefore the study population comprised of 561. Stratified random sampling technique was used for this study. The population sample size was computed as follows using Fisher's formula and ended up having a sample of 234 heads. The study utilized primary information which was quantitative and descriptive in nature. An overview of the survey was provided, along with a breakdown of the many factors to be examined. Using the drop-and-pick approach, the survey was automatically sent to the selected firms. The survey forms for the survey respondents were given to an assistant by the scholar. Moreover, the fiscal reporting of the firms was used to derive further information. The pilot study was carried out in 21 Kenyan state companies to assess the validity and reliability of the survey questionnaires. As a result, the pilot research respondents were not included in the main survey. Frequency distributions were used to represent variable values and the regularity of incidences. Analysis employed proportions, bar graphs, and pie charts in addition to frequencies distribution tables to interpret information from the participants. The SPSS software was subsequently be used to analyze the organized data. For the sake of drawing conclusions about the populace, SPSS was used to generate counts, descriptive analysis, and inferential analysis. Frequencies, mean values, and standard deviation will serve as the basis for the descriptive analysis. Regression and correlation analysis were the inference metric of choice. Regression assessment was used to determine the general modelling approach and the relevance of the regression model. The whole model's significance was evaluated using a 0.05 p value. To evaluate whether the explanatory variables have a substantial impact on financial performance, the separate regression coefficients were examined. The significance of the factors will be assessed using a 0.05 p value. A multiple linear regression analysis, as shown below, was used to examine the connection between the dependent variable (Y) and the independent variable (X).

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Where:

Y = Financial Performance X_1 = Segregation of duties

X_2 = transactional authorization

X_3 = independent checks

X_4 = documentation and records

α = Constant to represent other influential factors not included in the model

β_1 to β_4 = Regression Coefficients of X_1 to X_4 independent variables respectively.

ε = Error term assumed to be normally distributed with mean zero and constant variance.

RESEARCH FINDINGS AND DISCUSSIONS

The study's response rate was 206 (88.03%) which was sufficient to draw conclusions regarding the influence of internal control practices on financial performance of state corporations in Kenya. Most of the participants (63.1 %) were male and the rest (36.9%) were female. Most of the participants (50.5%) within this study were aged between 36 and 45 years of age. A proportion of 32.0 % were aged above 45 years, and 15.5 % were aged between 26 and 35 years. Only a few participants within the study were aged below 25 years of age. 64.1% of the respondents had a master's degree, 18.1% had a doctorate, while 17.5% had a bachelor's degree. 63.1% of the respondents within this study had been working in this organization for over 5 years. A proportion of 34.0% had been working in the organization for 1 year to 5 years and 2.9% of the respondents had worked in the organization for less than 1 year. 54.4% of the respondents within this study had been working in that leadership for over 5 years, a proportion of 34.0% had been working in that leadership position for 1 year to 5 years and 11.7% of the respondents had worked in that leadership position for less than 1 year.

A pilot study was carried out in this study to test for reliability and validity of the research instrument. This was done by use of 10% of the sample size which totaled 21 respondents. These were not included in the final study. Cronbach's Alpha was used to measure reliability for the variables in the research.

Table 1: Reliability for Internal Control Practices

Variables	Cronbach's Alpha
Segregation of duties	0.933
Transactional Authorization	0.918
Independent Checks	0.896
Documents and Records	0.931

From table 13, the findings reveal that the items assessing the variables segregation of duties transactional authorization, independent checks, and documents and records had a Cronbach alpha of 0.933, 0.918, 0.896, and 0.931 respectively which was reliable.

A validity test was conducted in KMO and Bartlett's Test of Sphericity measures. It is used to determine whether the research instrument actually measures what it anticipated to measure. For the variables segregation of duties transactional authorization, independent checks, and documents

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and records, a KMO statistic of 0.769, 0.766, 0.638 and 0.775 respectively was significant; that is greater than the critical level of significance of the test set at 0.5. The Bartlett's Test of Sphericity was significantly high (Chi-Square=104.73, 85.311, 93.667, and 122.725 with 15, 10, 10, and 15 degrees of freedom respectively, at $p<0.05$). This implies that the sample data collected is adequate for making conclusion and findings based on the analysis of the data.

Descriptive Statistics for Internal Control Practices

Table 2: Segregation of Duties

	No Extent	Little Extent	Moderate extent	Great extent	Very great extent	Mean	Standard Deviation
Records are well monitored through in the corporations by the in-charge department	2.91%	0.00%	11.65%	47.57%	37.86%	4.17	.86
There are different sets of functions to different individuals in the departments in the corporation	1.94%	2.91%	19.42%	44.66%	31.07%	4.00	.90
Physical assets are operated differently in the organization for accountability and management purposes	2.91%	1.94%	21.36%	38.83%	34.95%	4.01	.95
Data is set separately for recording including the IT data to ensure order and management	1.94%	2.91%	31.07%	36.89%	27.18%	3.84	.93
Different duties are given to various individuals to promote specialization	3.88%	2.91%	19.42%	48.54%	25.24%	3.88	.95
Accountability is done department-wise and duty-wise in the corporation	0.00%	1.94%	38.83%	28.16%	31.07%	3.88	.88

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Majority of the respondents at said that records are well monitored through in the corporations by the in-charge department. The mean and standard deviation of the responses were 4.17 and 0.86. Majority of the respondents at said that there are different sets of functions to different individuals in the departments in the corporation. The mean and standard deviation of the responses were 4.00 and 0.90. Majority of the respondents said that physical assets are operated differently in the organization for accountability and management purposes. The mean and standard deviation of the responses were 4.01 and 0.95. Majority of the respondents said that data is set separately for recording including the IT data to ensure order and management. The mean and standard deviation of the responses were 3.84 and 0.93. Majority of the respondents said that different duties are given to various individuals to promote specialization. The mean and standard deviation of the responses were 3.88 and 0.95. Majority of the respondents said that accountability is done department-wise and duty-wise in the corporation. The mean and standard deviation of the responses were 3.88 and 0.88.

Table 3: Transactional Authorization

	No Extent	Little Extent	Moderate extent	Great extent	Very great extent	Mean	Standard Deviation
Transactional authorization have a well outlined authority flow	7.77%	2.91%	14.56%	27.18%	47.57%	4.04	1.20
Any payments form the corporation are authorized officially and transparently	0.00%	7.77%	10.68%	17.48%	64.08%	4.38	.96
The pricing of various products of the corporation is done adequately by the corporation management who have set a lower and upper limit of prices	7.77%	8.74%	32.04%	35.92%	15.53%	3.43	1.10
The raw materials needed are authorized by management heads involved transparently	4.85%	0.00%	11.65%	43.69%	39.81%	4.14	.97
The operational costs of the corporation are managed effectively by the management	0.00%	6.80%	19.42%	40.78%	33.01%	4.00	.90

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Majority of the respondents said that transactional authorization have a well outlined authority flow. The mean and standard deviation of the responses were 4.04 and 1.20. Majority of the respondents said that any payments form the corporation are authorized officially and transparently. The mean and standard deviation of the responses were 4.38 and 0.96. Majority of the respondents said that the pricing of various products of the corporation is done adequately by the corporation management who have set a lower and upper limit of prices. The mean and standard deviation of the responses were 3.43 and 1.10. Majority of the respondents said that the raw materials needed are authorized by management heads involved transparently. The mean and standard deviation of the responses were 4.14 and 0.97.Majority of the respondents said that the operational costs of the corporation are managed effectively by the management. The mean and standard deviation of the responses were 4.00 and 0.90.

Table 4: Independent Checks

	No Extent	Little Extent	Moderate extent	Great extent	Very great extent	Mean	Standard Deviation
The corporation have a well-trained internal audit to regulate the corporation costs.	2.91%	1.94%	21.36%	45.63%	28.16%	3.94	.92
External audit is often involved to regulate the corporation effectiveness in its expenditure and incomes	1.94%	6.80%	33.98%	33.98%	23.30%	3.70	.97
The auditory teams, both external and external, co-work to ensure there is cohesion of accounts	4.85%	2.91%	22.33%	44.66%	25.24%	3.83	1.00
There is regular follow-ups of the internal control practices in the corporation	0.00%	4.85%	33.98%	33.01%	28.16%	3.84	.89
Surprise checks are often conducted in the corporation to confirm the effectiveness of the internal controls	0.97%	10.68%	37.86%	27.18%	23.30%	3.61	.99

Majority of the respondents said that the corporation have a well-trained internal audit to regulate the corporation costs. The mean and standard deviation of the responses were 3.94 and 0.92.

Majority of the respondents said that external audit is often involved to regulate the corporation effectiveness in its expenditure and incomes. The mean and standard deviation of the responses were 3.70 and 0.97. Majority of the respondents said that the auditory teams, both external and external, co-work to ensure there is cohesion of accounts. The mean and standard deviation of the responses were 3.83 and 1.00. Majority of the respondents said that there is regular follow-ups of the internal control practices in the corporation. The mean and standard deviation of the responses were 3.84 and 0.89. Majority of the respondents said that surprise checks are often conducted in the corporation to confirm the effectiveness of the internal controls. The mean and standard deviation of the responses were 3.61 and 0.99.

Table 5: Documents and Records

	No Extent	Little Extent	Moderate extent	Great extent	Very great extent	Mean	Standard Deviation
The corporation have implemented the use of electronic modern accounting software	0.00%	5.83%	18.45%	42.72%	33.01%	4.03	.87
The documentation and recording have ensured a simple functionality of the corporation	1.94%	5.83%	17.48%	55.34%	19.42%	3.84	.87
Financial reporting have been modernized	2.91%	4.85%	23.30%	40.78%	28.16%	3.86	.98
Productivity software is implemented for monitoring daily records of transactions	1.94%	4.85%	33.01%	33.98%	26.21%	3.78	.96
Usage of a variety of records is implemented for cross checking the records	1.94%	2.91%	26.21%	45.63%	23.30%	3.85	.88
There is reliability of records and documents is guaranteed in the system under use in the corporation	0.00%	3.88%	38.83%	34.95%	22.33%	3.76	.85

Majority of the respondents said that the corporation have implemented the use of electronic modern accounting software. The mean and standard deviation of the responses were 4.03 and 0.87. Majority of the respondents said that the documentation and recording have ensured a simple functionality of the corporation. The mean and standard deviation of the responses were 3.84 and 0.87. Majority of the respondents said that financial reporting have been modernized. The mean and standard deviation of the responses were 3.86 and 0.98. Majority of the respondents said that productivity software is implemented for monitoring daily records of transactions. The mean and standard deviation of the responses were 3.78 and 0.96. Majority of the respondents said that usage of a variety of records is implemented for cross checking the records. The mean and standard deviation of the responses were 3.85 and 0.88. Majority of the respondents said that there is reliability of records and documents is guaranteed in the system under use in the corporation to a. The mean and standard deviation of the responses were 3.76 and 0.85.

Correlation Analysis

Table 6: Correlation Analysis

		Segregation of duties	Transactional Authorization	Independent Checks	Documents And Records	Financial Performance
Segregation of duties	Pearson Correlation	1	.462**	.893**	.863**	.568**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	206	206	206	206	206
Transactional Authorization	Pearson Correlation	.462**	1	.470**	.500**	.437**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	206	206	206	206	206
Independent Checks	Pearson Correlation	.893**	.470**	1	.806**	.618**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	206	206	206	206	206
Documents And Records	Pearson Correlation	.863**	.500**	.806**	1	.696**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	206	206	206	206	206
Financial Performance	Pearson Correlation	.568**	.437**	.618**	.696**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	206	206	206	206	206

**. Correlation is significant at the 0.01 level (2-tailed).

There was a positive and significant association between internal control practices (Segregation of duties, Transactional authorization, Independent checks, and Documents and records) and financial performance (r = 0.568, p = 0.000, r = 0.437, p = 0.000, r = 0.618, p = 0.000, r = 0.696, p = 0.000). This implies that internal control practices have contributed to the resulted to the financial performance. The p-value was 0.000, which imples that there is a significant correlation between internal control practices and financial performance of the state corporation in Kenya.

Regression Analysis

Internal control practices (Segregation of duties, Transactional authorization, Independent checks, and Documents and records) were found to be satisfactory contribution factors of financial performance of state corporations. This was supported by coefficient of determination i.e. the R square of 51.1% which shows that internal control practices explain 51.1% of financial performance.

Table 7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.728a	0.53	0.511	1.83953

a. Predictors: (Constant), Documents And Records, Transactional Authorization, Independent Checks, segregation of duties

ANOVA for Internal Control Practices

The results indicated that the model was statistically significant. This was supported by the calculated F statistic of 27.654 which was greater than $F_{critical}$ and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level which implied that internal control practices is a good predictor of financial performance.

Table 8 ANOVA for Internal Control Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	374.307	4	93.577	27.654	0.000b
	Residual	331.621	201	3.384		
	Total	705.928	205			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Documents And Records, Transactional Authorization, Independent Checks, segregation of duties

Regression of coefficients for internal control practices

The variables segregation of duties, transactional authorization, independent checks and documents and records had the level of significance less than the 0.05 at a testing at 95% confidence level. Hence all independent variables had a significant influence of the on financial performance.

Table 9 Coefficients for internal control practices

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.402	1.175		-1.193	0.236
Segregation of duties	1.588	0.657	0.441	2.417	0.018
Transactional Authorization	0.366	0.289	0.102	2.263	0.210
Independent Checks	1.367	0.55	0.39	2.486	0.015
Documents And Records	2.546	0.507	0.712	5.02	0.000

a. Dependent Variable: Financial Performance

OLS Equation $\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3} + e$ becomes;

The optimal regression model of the study based on the significance is:

Financial Performance = -1.402 + 1.588 $\mathbf{X_1}$ + 0.366 $\mathbf{X_2}$ + 1.367 $\mathbf{X_3}$+ 2.546 $\mathbf{X_4}$

Conclusion

Internal control practices (Segregation of duties, transactional authorization, independent checks and documents and records) has a positive relationship to financial performance of state corporations. The results of the study showed that internal control practices are essential in mitigating the risk of fraud and error in financial transactions as the processes are broken down so that no single person is responsible for every stage in a process.

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Recommendations

The study recommended that these internal control practices be embraced to improve financial performance of State Corporation in the country. This is because the use of these internal control practices can result in the reduction of cases of theft and corruption in the state corporations. The study also recommended the management to continually assess the risk, monitor control implementation, and modify controls as needed in order to identify and establish effective controls.

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