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Effect of Internal Controls on Performance of Devolved Governments in Kenya

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Abstract:
Internal controls are essential determinants of financial distress in any devolved government worldwide. The devolved governments in Kenya recorded a dwindle in their own source return from 11.7 percent in 2013/14 to 8.8 percent in 2016/17. This research sought to establish the effect of internal controls on the performance of devolved governments in Kenya by adopting a correlational research study. The target population was 423 respondents from the 47 devolved governments in Kenya. Stratified random sampling was used where the sample size was 381 respondents after 38 respondents were excluded and used in the pilot study with a response rate of 80.7%. Primary data were gathered by the use of a structured questionnaire. Data analysis involved descriptive and inferential statistics in determining the trend of the study variables and prediction of variables, respectively. Findings of the study were presented using tables and figures, while regression analysis disclosed that the calculated p values of internal controls (p=0.002) were significant (p<0.05). Therefore, the scholar failed to reject the null hypothesis connoting that internal controls significantly had an effect on the performance of the devolved government in Kenya. The study commends that devolved governments should step up and ascertain that internal controls are in place to improve service delivery to the people on the ground.

Keywords: *Internal controls, performance, devolved governments*

1. Introduction

Internal controls are a planned structural way of financial performance and otherwise put in place by the administration to carry out activities in an orderly and efficient manner where there is a guarantee of the attainment of an organization's objectives as regards compliance with policies and regulations (Ahmed & Nganga, 2019). Internal controls are essential for all activities within an entity. Internal controls ensure that there are stable structural activities void of risks (Njeri, 2013). Internal control systems are set up by organizations to aid them in meeting their objectives hence increasing firm compliance as well as preventing loss of firm resources. Such controls provide total certainty that the intent set by the firm will be accomplished (Kisanyanya & Omagwa, 2018). It entails internal audits, training programs, segregation of duties, and corrective internal controls to achieve the desired outcomes (Ramukama, 2014).

Internal audit determines the integrity, reliability, and reality of fiscal and operational facts from various departments in an organization and must be independent for pertinent decision-making (Muchiri & Jangongo, 2017). This ensures that firms' goals and objectives are achieved by acting as a watchdog hence ensuring productivity and profits. Training is a program aimed at gaining specified skills and knowledge which assists in improving job performance (Halawi & Haydar, 2018). Establishments nationwide have chosen to rely on the knowledge and improved skills of personnel to form a competitive edge (Shu-Rung & Chun-Chieh, 2017). Segregation of duties is associated with the procedure of sharing obligations among different people in an organization so that no sole employee can obscure fraud (Rentor, Setiawan & Lusanjaya, 2017). Corrective internal controls are activities applied after a root cause investigation uncovers a problem (Abiodun, 2020). Activities involved report filing, disciplinary action, software patches or modifications, and new policies and rules.

Devolved system of government is practiced in various countries:

- Africa (Ethiopia, Ghana, South Africa, Tanzania, Nigeria, Uganda, Kenya), Asia continent (Bangladesh, India),
- Europe (Greece, Germany, Russia),
- Latin America (Bolivia, Brazil, Argentina), and
- North America (Canada, United States)

As a result, this may intensify the strategic planning of public goods and services to localized communities (Fubing and Ran, 2019). Kenya, being one of the underdeveloped nations in the world, adopted the devolved system of government in 2010. Moorkhejee and Ghatak (2014) posit that devolution is attributed to the belief that it offers an avenue for enhancing accountability and ensuring efficiency in populace service delivery since central governments have been blamed for hampering the structured delivery of public services (Wangari, 2014).

The devolved governments in Kenya recorded a downswing own source revenue from 11.7 percent in 2013/14 to 8.8 percent in 2016/17 (The National Treasury and planning, 2018, pg.12). The sole purpose of devolution is to make sure that delivery of service is intensified and fiscal reporting of taxpayer funds spent. Kenya adopted a devolved government structure with the creation of one national government and 47 county governments (Constitution of Kenya, 2010). The devolved governance units, as displayed in the fourth schedule of the constitution of Kenya (2010), include:

- Agriculture,
- Education,
- Health,
- Information Communication Technology (ICT),
- Transport and Infrastructure and Tourism

It can be accorded that the devolved governments have continued to experience provocations, which have thwarted their communal performance and management operations (Mwongozo, 2017).

Writings such as Bett & Membe (2017) in Kenya; Ejoh & Ejom (2014) in Nigeria; Hoang, Dyc & Thug (2021) in Vietnam; Kinyua (2016) in Kenya; Kamau (2014) in Kenya; Oyoo (2014) in Kenya; and Yahya (2018) in Kenya used descriptive research design and established a considerable significance ($p<0.05$) between internal control and performance in various manufacturing firms, state corporations, financial institutions, and non-governmental organizations. However, little data or writing is known on the effect of internal controls on the performance of devolved governments in Kenya. Therefore, this research was conducted to find out the effect of internal controls on the performance of devolved governments in Kenya to advise on how best to strengthen internal controls and improve service delivery to the people.

1.1. Statement of the Problem

Internal control is a wide concept that covers the entire set of different activities of procedures, methods, and controls established by an entity to increase the chance of achieving its business goals (Institute of Internal Auditors (IIA), 2012). Internal control aids in preventing the need for loss of resources and ensures that fiscal reporting is realistic and reliable (Krishna, 2015). The objectivity of internal controls is to ensure that devolved government operations are spread out to the people where they can get essential services from the state and increase the devolved governmental units' revenues. The devolved governments in Kenya recorded a downswing in their own source revenue from 11.7 percent in 2013/14 to 8.8 percent in 2016/17. Several studies, including Makamache & Chikwature (2020) in Zimbabwe; Mwakimasinde; Odhiambo & Byaruhanga (2014) in Kenya; Ndifon & Ejom (2014) in Nigeria; and Nyakundi, Nyamita & Tinega (2014) in Kenya, using descriptive research design found a consiferable significance ($p<0.05$) between internal controls and performance. Most of the research was on manufacturing firms, educational institutions, and small and medium enterprises. However, this study was on internal controls and the performance of devolved governments in Kenya using a correlational research design. On the other hand, the effect of internal controls on the performance of devolved governments is scanty since there is a missing link on the effect of internal controls on the performance of devolved governments in Kenya. Therefore, the research sought to find out how internal controls affect the performance of devolved governments in Kenya.

2. Literature Review

Onyango (2014) investigated the influence of internal controls on the performance of County Governments in Kenya using a descriptive research design with a target population of 47 County Governments in Kenya. The study established that devolved governments did not put into effect the internal audits suggested by the Auditor General to improve the administration of fiscal resources. In addition, personnel neither presented weekly reports nor held meetings to discuss the ongoing progress of activities. There was no clear separation of roles among personnel, and other personnel did not check employee work. Many of the devolved government personnel were ICT illiterate and could not present or produce reports online to their supervisors due to not having frequent training. Onyango (2014) also noted that a good number of the devolved governments were not conversant with the global environment, including the economic, political, social, and technological environments, due to inadequate training.

Ahmed and Nganga (2019), in their study on internal control practices and financial performance of county governments in the coastal region of Kenya, used a descriptive research design with a target population of thirty employees drawn from five departments in the Ministry of Finance, Budget and planning in the county governments of Kwale, Mombasa, Taita, and Kilifi. The respondents were 40 finance managers obtained from Fiscal Planning. The study established a considerable and significant ($p<0.05$) effect between the monitoring, risk assessment, control environment, information, and communication, on performance. The study concluded that risk identification and mitigation play the most significant role in influencing the financial performance of the devolved governments. Hence, risk identification can essentially be said to be the key starting point of any risk management program, as the devolved governments cannot manage what is not known.

Bett and Memba (2017), in their study of the effects of internal control on the financial performance of processing firms in Kenya: A case of Menengai Company, stated that lack of proper information and communication systems and weak internal controls activities have led to embezzlement of collected earning, loss of revenue, and encouraged collusion to fraud among the processing firms. Specifically, it was shown that organizations that observed ethical values, control activities, risk assessment, integrity, information technology, and monitoring recorded higher financial performance (Bett & Memba, 2017).

Hoang, Duc, and Thug (2021), in their study of the impact of internal control on the quality of accounting information in Vietnamese paper-processing enterprises, using a correlational research design, analyzed the impact of internal control on the quality of accounting information. The scholars used questionnaires to conduct a survey within the paper processing firms. Out of 321 questionnaires distributed, only 296 were valid and were used in the research. Research results indicated that the accounting information system, control environment, and internal control procedures in Vietnamese paper processing enterprises have a considerable ($p<0.05$) influence on the quality of accounting systems.

Yahya (2018) investigated the relationship between internal control practices and the financial performance of commercial state corporations in Kenya using a descriptive research design, targeting 33 commercial state corporations and using questionnaires. The research found that risk assessment, control environment, and information communication have a considerable ($p<0.05$) effect on financial performance.

Kamau (2014) investigated the effect of internal controls on the financial performance of processing firms in Kenya using a correlation research design. The findings found that most processing firms had a considerable ($p<0.05$) effect on the performance of the processing firms as the control environment is one of the functionalities of internal controls of the firm. The results also revealed that the staff were trained to implement the accounting and financial systems, and the security system identified and safeguarded organizational inventories, including assets. The statistical result from the regression analysis indicated a considerably significant relationship between internal control and the financial performance of processing firms in Kenya.

Kinyua (2016) examined the effect of internal control systems on the financial performance of firms quoted in the Nairobi security exchange using a descriptive research design. It established that internal control has a considerable ($p<0.05$) relationship with performance. The outcomes, especially corporate governance, risk management, control activity, and internal audit, are considerable areas entities should consider to boost their performance.

Etengu and Amony (2016) looked at the role of the internal control system on the financial performance of non-governmental organizations in Uganda using a descriptive research design revealing a considerable ($p<0.05$) relationship between monitoring, control environment, and control activities.

Ejoh and Ejom (2014), in their study of the impact of internal control activities on financial activities on the financial performance of tertiary institutions in Nigeria using primary data and a descriptive research design, established that there is adequate segregation of duties, regular review of financial transactions and the staff are not adequately trained to implement the accounting and financial control system.

Oyoo (2014), in his study on the effect of internal control on the financial performance of microfinance institutions in Kisumu central constituency of Kenya using a descriptive and correlation research design and a convenience sampling technique, established a positive ($p<0.05$) relationship between internal control and financial performance by 44 percent and 55.3 percent by other factors.

Makamache and Chikwature, 2020 in their research, examined the effectiveness of internal control on operations performance using a case of uni-handling international limited, where the sample included clients (55), management (10), and Operational staff (30) having used the census method. The scholars managed to conclude a considerable ($p<0.05$) relationship between internal controls and operational and financial performance. Nevertheless, they also established that internal financial control is not a substitute for the individual performance of the entire personnel. Apparently, it has some imperfections, although those may be marginal.

Olufunmilayo and Olubodun (2018), in their scholarly research, aimed to examine the influence of the internal control system on employee performance of small processing enterprises in Ondo state, Nigeria. A total of 4,500 enterprises registered with the Nigerian Association of Small Scale Industrialists in Ondo State, out of which 195 randomly selected processing enterprises formed the sample of the study. The study indicated that monitoring and control environment have considerable ($p<0.05$) effect on personnel performance. The study concluded that the internal control system considerably ($p<0.05$) influences the personnel performance of small-scale manufacturing enterprises in Ondo State, Nigeria. It was suggested that small-scale processing enterprises should give priority to the implementation of internal control system components since they influence personnel performance and, at the end of the day, organizational performance.

Mwakimasinde, Odhiambo, and Byaruhanga (2014), using a correlation research design, examined how internal controls influenced the performance of sugar cane growers' organizations in Kenya. The findings on regression indicated that there was a considerable ($p<0.05$) relationship between performance and internal controls.

Ndifon and Ejom (2014) studied the role of internal control activities on performance in tertiary institutions in Nigeria: A Case of Cross River College of Education using a cross-sectional survey design and a stratified sampling technique using 77 respondents. The outcomes of the study showed that all the control activities in the institutions were fronted by the administration. In the scholarly study, there was supervision of workers by the superiors and separation of duties among the employees. However, no statistically considerable association existed between performance and internal control activities, and the college failed to conduct personnel training.

Nyakundi, Nyamita, and Tinega (2014), in their study, investigated the effect of internal control systems on financial performance among small and medium enterprises in Kisumu city, Kenya, using the stratified and simple random technique. The specific objective was to assess the relationship between the internal control system and return on investment and establish the level of business knowledge of an enterprise in the internal control system and its effect on financial performance. They suggested that organizing the internal audit department with competent staff can upgrade the effectiveness of internal control systems among small and medium enterprises. The other suggestion provided the prominence of raising awareness about the knowledge of internal control systems for owners.

2.1. Research Hypothesis

- $H_{o\ 1}$: There is no statistically significant effect between internal controls on the performance of devolved governments in Kenya

3. Research Methodology

3.1. Research Design

The research adopted a correlational research design. Cooper and Schindler (2003) put forward that correlational research design tests for the statistical relationship between variables, where the scholar begins with the idea that there might be a relationship between two variables. The design was considered suited for the research because it aims to analyze the effect of internal controls on the performance of devolved governments in Kenya. According to Creswell (2014), a study can follow either a qualitative or a quantitative paradigm. This study uses a quantitative paradigm, delving into the effect of internal control on the performance of devolved governments in Kenya.

3.2. Empirical Model

$P = \beta_0 + \beta_1 IC_1 + \varepsilon$……………………………………………………………………………………………………(1)

Where:

- P - Service delivery
- B_0 - Constant value
- β_1 - Coefficient parameters that show the effect of the independent variables on performance
- IC_1 - Internal control
- ε - Random error term

The error term presumes that the devolved government error term is normally distributed. This means we can use the estimated standard errors to create confidence intervals and conduct hypothesis tests about devolved government parameters.

3.3. Target Population

The target population was 423 respondents from 47 devolved governments in Kenya.

3.4. Data Collection and Analysis

Primary data were gathered by the use of questionnaires. Questionnaires were instrumental in obtaining answers on pertinent issues probed by the research (Armstrong, 2010). Once the data were collected, they were edited for completeness and consistency. The data were coded to enable the grouping of responses into various categories. Descriptive statistics were taken into consideration to measure central tendency, normality, and dispersion to describe the population. Inferential statistics, namely: Pearson's correlation analysis and multiple regressions using ordinary least square regression model (1), were used to determine the extent and direction of the prediction of variables and analyze the influence of independent variables and the dependent variable, respectively. Pearson correlation was used to find out the association between two variables since it is appropriate for interval-scaled variables to find how internal controls affect the performance of devolved governments.

4. Empirical Results and Discussion

4.1. Descriptive Results

	SA (%)	A (%)	N (%)	D (%)	STD (%)	Mean	SErr	SD
Internal audit function is in place, and operational	7.4	66.8	25.8	0.0	0.0	3.82	0.034	0.547
Training programs are there for internal audit staff	13.9	64.8	20.0	1.3	0.0	3.91	0.041	0.620
In the devolved governments, we have segregation of duties	3.9	76.5	16.8	2.6	0.0	3.82	0.039	0.528
Corrective internal controls are functional in the devolved governments	4.2	79.0	16.8	0.0	0.0	3.87	0.042	0.441
Valid N (listwise)	310							

Table 1: Descriptive Statistics on Response to Internal Controls
Source: Survey Data (2020)

4.1.1. Internal Audit Function Is in Place, and Operational

The findings of the study indicate that many of the respondents were in accord that the internal audit function is in place and operational in the devolved governments. Although slightly more than a quarter (25.8%) of the respondents refused to give their position regarding internal audit function in the devolved governments, a considerable majority (66.8 %) generally agreed that internal audit function is in place and operational.

4.1.2. Training Programs Are There for Internal Audit Staff

On the same note of opinion, it was established that training programs are there for internal audit personnel. This was reflected by over half (64.8 %) of the respondents who were in full accord that training programs were there for internal audit staff. Just a paltry 1.3% believed that although this ought to have been the case, it was not true with most of the respondents, while 20% were neutral on the same.

4.1.3. In the Devolved Governments, We Have Segregation of Duties

From table 1, the outcomes of the study indicate that a good number of the respondents held the perception that in the devolved government, we had segregation of duties in the devolved government. This was mirrored by over three quarters (strongly agreed: 3.9%, agreed: 76.5%) of the respondents who affirmed that we have segregation of duties in the devolved governments. However, 2.6% of those who participated in the study did not agree with the statement, while 16.8% of them decided to remain equivocal on the matter.

4.1.4. Corrective Internal Controls Are Functional in Devolved Governments

From table 1, the research outcomes showed that the respondents were divided on whether corrective internal controls are functional in the devolved governments. Although slightly more than three quarters (strongly agreed: 4.2%; agreed 79%) of the respondents agreed that internal controls are functional in devolved governments, 16.8 of them were neutral that corrective internal controls are functional and operational in devolved governments.

4.2. Inferential Statistics: Regression Analysis and Hypothesis Testing

The following hypothesis was probed by the researcher in the study:

- $H_{o\ 1}$: There is no statistically significant effect between internal controls on the performance of devolved governments in Kenya

4.2.1. Regression Analysis: Internal Control on Performance of Devolved Governments

The results in table 2 show that the coefficient of determination (R^2) is 0.31, meaning that the model estimated elucidates 31% of the variations in the performance of devolved governments in Kenya.

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Change Statistics**				
					R Square Change	**F Change**	**df1**	**df2**	**Sig. F Change**
1	.244	.31	.044	.469	.60	3.830	5	304	.002

Table 2: Regression Analysis Summary-Internal Control

a. Predictors: (Constant), Internal Audit, Is Functional and Operational, Training Programs, Segregation of Duties, Corrective Internal Controls

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
	(Constant)	1.530	.253		6.047	.002
	Internal Controls	.198	.067	.153	2.949	.003
a. Dependent Variable: Performance of devolved governments						

Table 3: Multiple Regression

The output box coefficient (Table 3), a look at the Beta values under unstandardized coefficients, shows that the independent variable contributes differently in the model. The internal controls with a standardized Beta coefficient of 0.153, an absolute t-value of 2.949, and p<0.05 (0.03) also had a statistically considerable effect on the performance of devolved governments in Kenya.

4.2.2. Hypothesis Testing: The Effect of Internal Control on Performance of Devolved Governments in Kenya

To respond to this hypothesis of the study, a probe on the hypothesis, 'there is no significant relationship between internal control on the performance of devolved governments in Kenya', was carried out. The hypothesis was probed using ANOVA. Internal control was used as an independent variable, while the level of performance was used as a dependent variable. Initial analyses were carried out to guarantee no violation of the assumptions of normality, linearity, and homoscedasticity. Table 4 indicates the ANOVA test SPSS output. The outcomes of Analysis of Variance (ANOVA) indicate that the association between the independent variable is considerable (F=3.836, p<.05). This shows that internal control significantly affects the performance of devolved governments in Kenya. Thus, the scholar failed to reject the null hypothesis. Therefore, internal audit function, training programs, segregation of duties, and corrective internal controls are statistically acceptable as useful in predicting the performance of devolved governments in Kenya.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.223	5	.845	3.836	.002
	Residual	66.702	304	.220		
	Total	70.925	309			

Table 4: ANOVA Table for Internal Controls
a. Dependent Variable: Performance of Devolved Governments
b. Predictors: (Constant), Internal Audit Function, Training Programs, Segregation of Duties, Corrective Internal Controls

5. Conclusion and Recommendations

The study analyzed the effect of internal controls on the performance of devolved governments in Kenya using a pragmatic research philosophy and a correlational research design. Based on the hypothesis, the study established that internal controls had a considerable effect on the performance of devolved governments in Kenya. The study suggests that devolved governments should upgrade and ensure that internal controls are in place in the devolved governments to improve the delivery of services to the people on the ground.

A similar study can be conducted to investigate the effect of internal controls on the performance of other countries that have a devolved system of government.

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