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INFLUENCE OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF KENYA FARMERS' ASSOCIATION LIMITED

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Abstract

Internal control systems are put in place to ensure safe custody of all assets, detect and safeguard against probable frauds. Kenya Farmers Association (KFA) Limited is struggling with liquidity problems, untimely financial reports, and inefficient accountability for the firm's financial resources. Objective of this research was to establish the influence of internal control system on the financial performance of KFA Ltd. In this study, internal control systems were reflected by two variables; control environment and control activities. Target population was 78 managers in this explanatory research. Census design was adopted. Data were analyzed using inferential and descriptive statistics. The results revealed that the staffs were not trained to implement the accounting and financial management systems; and that the security systems do not identify and safeguard organizational assets. The results further showed that there is a positive relationship between internal control systems and financial performance of KFA Ltd. The control environment and control activities contributed to 61.3% of the variation in financial performance. Study found that management of KFA Ltd is not committed to the internal control systems actively. The study recommends more commitment by management in monitoring internal control systems, and employment of more graduates.

Keywords: Control activities, control environment, financial performance, internal control systems, Kenya Farmers Association Limited

INTRODUCTION

Firms are always keen on their financial performance and they usually engage in activities to appraise their financial performance and thus, make changes in their operations (Visser, Matten & Pohl., 2010). However, it is evident that there are some firms that are considered more successful than others. Similarly, there are firms that have traditionally adopted different methods to improve their financial performance, and these have made them more successful than other firms.

Recent research on internal controls in Belgium illustrated the importance of the control environment when studying internal control systems. Research has found that certain control environment characteristics like tone-at-the-top, level of risk and control awareness, clearly defined and communicated are significantly related to the role of the internal control system and fraud detection within an organization(Sarens & De Beelde, 2006)

If an organization pursues integrity and clear ethical values reflected in a formal code of conduct, the internal control will take a greater importance (Saren & Beelde, 2008). A study was done to establish the impact of internal control design on banks' ability to staff fraud and staff life style and fraud detection in Nigeria. Data were collected from 13 Nigerian banks using a four point like Scale questionnaire and analyzed using percentages and ratios. The study found that Internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud (Ewa & Udoayang, 2012)

A research was conducted by Mawanda (2008) on influence of internal control systems on financial performance of an institution of higher learning in Uganda. Internal controls were looked at from the perspective of control environment, risk assessment, Control Activities, information and communication and monitoring process 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 study established a significant relationship between internal control system and financial performance. The study recommended competence profiling in the Internal Audit department which should be based on what the firm expects the internal control system to do. The study therefore acknowledged the role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

Olumbe (2012) conducted a study to establish the relationship between internal controls and corporate governance in commercial banks in Kenya. The researcher conducted a survey of all the 45 commercial banks in Kenya. It was concluded that most of the banks had incorporated the various parameters which were used for gauging internal controls and corporate governance. This was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their banks with high financial performance had instituted good corporate governance with a strong system of internal controls and that there was great improvement of their financial performance.

Kenya Farmers Association (KFA) Limited was established in 1923 as a limited liability company. The objective of the association was to empower its members through affordable farm inputs and assisting in the development of agriculture and related sectors. In 1932 the Company was further registered as a co-operative society and enjoyed a dual registration both as a limited liability company under the Companies Act as well as a co-operative society under Co-operative Society Act. This status continued up to 1984 when it was merged with KGGCU to form KGGCU Ltd and registered under Co-operative Societies Act. Its core activities comprised of selling farm inputs using its countrywide network and marketing of farm products. For value addition to its members KFA also handled wool, agricultural machines, engaged in clearing and forwarding business and was the main Government's agent for distribution of fertilizer and handling of Cereals.

During its hay days in 1980's, KFA enjoyed almost total monopoly on its distribution field. It operated 67 branches and Selling centers throughout the country. KFA's downfall started in 1984 due to political interference coupled with other factors. It is currently insolvent and operates only 35 branches and selling centers. The current turnover is just a small fraction of its capacity. K.F.A's good old days, was the leading fertilizer dealer and accounted for about 40% of the country's fertilizer importation and handling, contributing to 60% of the Association's business turnover. The Association has, in the last few years, been distributing locally available fertilizers in limited quantities, due to lack of funds to finance direct imports.

KFA is still a leading distributor of Certified Seeds throughout the country. The largest grower and processor of certified seeds in the country (approximately 90%) is Kenya Seed Company Ltd (KSC), in which KFA is a shareholder. The Association also distributes seed from other suppliers. Traditionally, KFA was leading distributor of agro-chemicals in the country which included herbicides and insecticides .Limited relationships still exist with all the large suppliers who are keen to resume full use of KFA's countrywide distribution network and goodwill of farmers in animal healthcare products and feeds. The Scenario here is very much like in the agro chemicals whereby KFA was traditionally the leading distributor.

Statement of the Problem

Internal control systems in a firm should evolve over time and all the departments should undergo positive transformations. The firm should also employ qualified professionals to fill all the key departments. A firm should always have an ICT department to help capture business transactions and classify, measure, records and report on timely basis and in this process can help determine the financial performance of an organization. However, despite the above, KFA Ltd which has been in existence since 1923 still struggles with liquidity problems, untimely financial reports, inefficient accountability for the firm's financial resources, frauds and misuse of the firm's resources as well as a number of decisions made not yielding the expected results. Furthermore, business transactions are not carried out according to the Generally Accepted Accounting Principles (GAAPs). This leaves the assets of the firm being improperly safeguarded, incomplete and inaccurate information.

The financial statements of KFA Ltd have shown huge financial losses. This financial position has negatively affected the growth of the firm thus raising major concern among its stakeholders and the public at large. It has been unable to meet its financial obligations thus increasing its indebtedness. This research, therefore, attempted to assess the influence of internal control systems on financial performance of KFA Ltd from the perspective of internal control systems.

Research Objectives

General Objective

To establish the influence of internal control systems on the financial performance of Kenya Farmers' Association Limited.

Specific Objectives

i. To examine the effect of control environment on the financial performance of Kenya Farmers' Association Ltd

ii. To evaluate the effect of control activities on the financial performance of Kenya Farmers' Association Ltd

Research Hypotheses

$\mathbf{H_{01}}$: Control environment of KFA Ltd does not significantly affect its financial performance.

$\mathbf{H_{02}}$: Control activities by KFA Ltd do not significantly affect its financial performance.

THEORETICAL FRAMEWORK

Agency Theory

Agency theory emerged with theorists Stephen Ross and Barry (1970) and authored by Adams (1994). The most cited reference to the theory comes from Michael Jensen and William

Meckling. Agency theory describes firms as necessary structures through which, it is possible to exercise internal control which minimizes opportunistic behavior of agents. This relationship between the agent and principal is strengthened by the principal employing an expert to monitor the agent (Barlie & Means, (1932).

This position was supported by Coarse (1937) who maintained that the controls provide for conflict resolution between the agent and principal and that moral hazard and adverse selection affects the output of the agent. Studies have shown that internal control system reduces agency costs (Abdel-khalik & Barefield, 1993). Firms have an economic incentive to report on internal control (Deumes & Knechel, 2008). Weaknesses in internal controls are associated with increased levels of earnings management (Chan & Ashbaugh, 2008). Morris (2011) in support believed that management should create an environment of control to manage earnings.

Gupta (2001) acknowledged that internal controls can provide reasonable assurance to management objectives. Internal control systems have been incorporated into policies, rules and regulations of organizations to achieve their established objectives. This theory is important in the current study as it will shed light on how the principal and agency interact for the benefit of the organization. It will also help in the evaluation of the organization on internal controls. The fact that the principal delegates his power to the agent also creates an oversight role by the principal to the agent.

Theory of the Firm

The proponent of the theory was Coarse (1937), making it one of the first attempts to define the firm theoretically in relation to the market. The theory of the firm consists of a number of economic theories that describe, explain and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, and relationship to the market. This theory affirms that a firm is a “black box” operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits, or more accurately, present value. The theory helped to explain why an entrepreneur or manager in a firm which has a mixed financial structure containing both debt and equity claims will choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner and why this result is independent of whether the firm operates in monopolistic or competitive product or factor markets (Kantarelis, 2007).

The theory of the firm aims to answer these questions: Existence, Boundaries, Organization, why are firms structured in such a specific way, for example as to hierarchy or decentralization?, heterogeneity of firm actions and performances, what drives different actions and performance of firms, the evidence, what tests are there for the respective theory of the firm (Thomas, 2008).

De Paula (1990) in support stated that risk assessment is important for the existence of the firm. Millichamp (1999) in support stated that monitoring of firm's activities reduces risk of intentional manipulation of accounts and increases element of checking. This makes fraud more difficult to be committed and maximizes profits of the firm. Batra (1992) stated that control of documents is a driver to firm's performance. This theory is important in the current research project as it helped in shedding light on how wealth maximization can be achieved through the interaction with internal controls. It also helped in the understanding of the controls activities that are supposed to be put in place to enhance wealth creation.

EMPIRICAL REVIEW

Empirical studies so far carried out in respect of control environment, control activities and financial performance are reviewed in this section.

Control Environment and Financial Performance

It simply means controlled environment of the entity in which operations of the business are carried out that generate financial performance. It is this control environment that keeps anyone in the entity from committing any wrong doing. For example, if management is honest and encourages honesty and is strict towards falsehood then employees would expect harsh consequences and only this will keep away the employees to commit any fraud individually or in collusion with others.

Whittington and Pany (2001) noted 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 management philosophy and operating style. Whittington and Pany (2001) also believed 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.

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.

Financial performance refers to the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats (Mawanda, 2008). They assert 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. Another thing to understand is that controlled environment supplements the other functions of internal control systems. It is the foundation for all the other components of internal control. It comprises of factors like integrity and ethical values of personnel tasked with creating, administering and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy and operating style and organizational structure.

Control Activities and Financial Performance

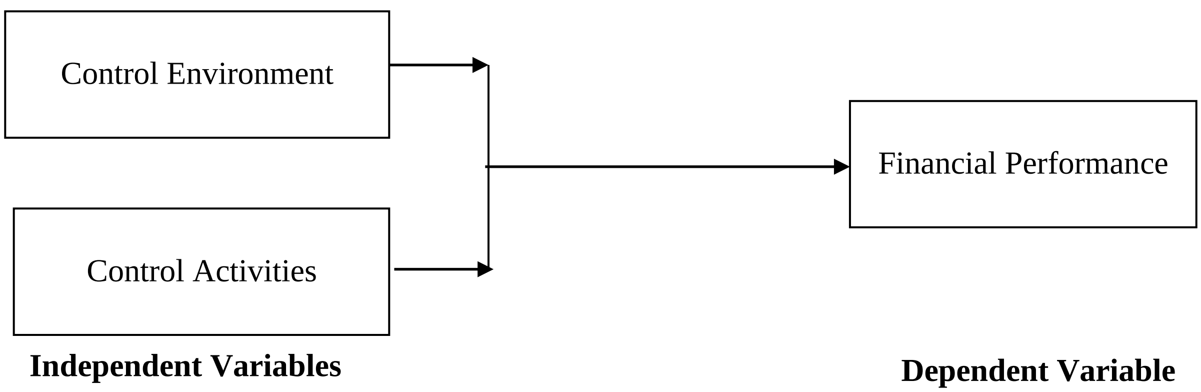
Control activities refer to policies, procedures, and mechanisms put in place to ensure directives of the management are properly carried out. Appropriate and accurate documentation of policies and procedural guidelines helps to determine how the control activities are to be executed (Woolf, 1997) . He stated that control activities are put in place by the management to make financial information authentic and reliable. For example, debtors cannot be written off without permission of finance director or any other person given authority to write off debts. Similarly, credit sales cannot be made unless recommendation is sought from credit control department. Such control activities do not necessarily be in the nature of authorization. Requirement to enter password to access certain modules of information system is an example of information system. Similarly a validation check in the database system to make sure that contact number of supplier can only be in numbers or email address has been entered in a particular format. All such checks will ensure that information is accurate (Batra, 1992).

It is further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analysis that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”. They mentioned internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training, and time studies among others. Corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers.

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. Morris (2011) believed that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in control activities that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

Ray and Pany (2001) also mentioned Control activities as another component of internal controls. They noted 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).

Figure 1. Conceptual Framework



METHODOLOGY

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. This study used explanatory research design. Explanatory research is research conducted in order to explain any behaviour in the market (Bisbe & Otley, 2004). This type of research design was selected after considering the type of population and its nature, the objectives of the study, and the design standard of accuracy. The creation of a sound internal control system in a firm greatly influences the area of study.

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. A target population is one that the researcher wants to generalize the result of the study. The target population for this study was 78 managers of Kenya Farmers' Association Limited (HRM, 2015). The target population was distributed as shown below.

Table 1: Target Population

Departments	Population
General Administration	4
Human Resources	5
Finance	5
Marketing	5
Secretarial	4
Branches	45
Total	**78**

Census Design

The relatively small number of 78 comprising of the target population eliminated the rationale of sampling. In this regard, all members of the target population were included in the study. The census method was adopted. Besides being necessitated by the relatively small population of the study, it also eliminated the sampling bias and sampling error. This enhanced the generalization ability of the study findings.

Research Instrument

A set of questionnaires were used to collect data from respondents participating in the study. The questionnaires were self-designed by the researcher.

Pilot Testing

The pilot test enabled the researcher to find out the flow of documents and modify the same to validate it. The reliability tested the use of instruments for the reliability of values (Alpha Values) as recommended by Cronbach (1946). According to Saunders (2003), the purpose of the pilot test was to refine the instruments so that the respondents would find it easy in answering the questions and provide for easy recording and analysis of data. The researcher administered 7 questionnaires for pilot study according to the rule of thumb (Mugenda & Mugenda, 2003). This also helped to assess the content validity of the instruments and the reliability of the data that was collected.

Reliability was concerned with the degree to which an instrument was free from error, hence, yielding consistent results, and validity was the extent to which research findings accurately represented reality and yielded the same results every time it was administered (Collis & Hussey, 2003). Reliability was calculated with the help of Statistical Package for Social Sciences (SPSS). A correlation coefficient greater or equal to 0.6 was accepted (George & Mallery, 2003). The sample was chosen on the basis that the managers operate in different environments. The sample size for the pilot test was justified because Mugenda and Mugenda (2003) suggested that 10 to 30 participants were sufficient for pilot test study. According to Sekaran (2001) Alpha values for each variable under study should not be less than 0.6 for the statements in the instruments to be deemed reliable. Consequently, all the statements under each variable were subjected to this test and were proven to be above 0.6. The content validity of the data collection instruments was done with the help of an expert (the Researcher's Supervisor) to edit the questionnaire .The researcher forwarded the structured questionnaire to the supervisor who is an expert in the area covered by the research for editing and reviewing.

Table 2: Reliability Results

Constructs	**No. of items**	**Alpha Values**
Control Environment	9	.692
Control Activities	9	.739
Financial Performance	4	.719

Table 2 reveals that all the variables returned alpha values greater than 0.6 which is the recommended threshold by (Sekaran, 2001). Therefore, all the variables in the instrument were deemed reliable.

Data Collection Procedure

The researcher used the managers to fill in the questionnaire at their own time. A structured questionnaire was administered on the target population. The target was to get opinions that were based on structured questionnaires. This method was considered to be more suitable with this kind of research design. The sources of data were also reviewed. The researcher sort out journals, magazines, and used internet in collection of data (Royal Roads University, 2013). Data collected was analyzed using both descriptive and inferential statistics. Different components of internal control systems that is, control environment, risk assessment, control activities, ICT adoption, and monitoring process were identified by explaining their influence to the financial performance of KFA Ltd.

Data Processing and Analysis

After the data was collected, questionnaires were checked and coded. Percentages and frequencies were used in interpretation of data. Correlation was used to portray the influence of internal control components on financial performance of the firm. The outcome of the analysis was presented using summary tables. This tool ensured that information was understood and interpreted as it should be, and further, that this was done at a glance (Saunders, Lewis, & Thornhill, 2012). Data analysis refers to a technique used to make inferences from data collected by means of a systematic and objective identification of specific characteristics (Bryman & Bell, 2003). Once data was collected, it had to be edited to verify the completeness of data, coded in order to assign numbers or symbols to the various answers for effective categorization/classification, entered in order to convert the information gathered to a medium for viewing and manipulation and finally displayed through the use of frequency tables. Case summaries were generated to check for any errors in data entry as well as to determine missing responses. Descriptive statistics were used to obtain useful summaries of responses. To determine relationships between the variables the following regression model was used:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \varepsilon$

Where**:**

β_1, and β_2, are the regression co-efficients

Y	=	Financial Performance
β_0	=	Constant
X_1	=	Control environment
X_2	=	Control activities
ε	=	Error or Residual term

EMPIRICAL FINDINGS AND DISCUSSIONS

This section illustrates the response rate and study findings alongside discussions of the data output. It presents analysis and findings of the study as set out in the research objectives and research methodology. The findings are in form of both descriptive and inferential statistics and are shown in form of tables and statements. The data collected was on a five point Likert scale where integers 1, 2, 3, 4, and 5 represented ‘strongly disagree, disagree, not sure, agree, and strongly agree’ respectively.

Response Rate

There were 78 questionnaires that were administered on the respondents and 71 of them were appropriately filled and returned. This represents 91 % response rate which was sufficient for the study.

Descriptive Analysis and Discussions

Control Environment

The study sought to determine the extent to which the functionality of control environment influence the financial performance of KFA Ltd. Table 3 shows the opinions of the respondents.

Table 3: Descriptive Statistics for Control Environment

Statement	N	Min.	Max.	Mean	Std.dev.
KFA has accounting and financial ICS	71	2	5	4.22	.57
Management is committed to ICS	71	2	5	3.72	.831
Management closely monitors ICS	71	1	5	2.56	1.065
Management provides feedback	71	1	5	2.31	1.022
Appropriate measures to correct errors	71	1	5	2.46	.998
Management acts with degree of integrity	71	1	5	2.80	1.14
Ethical values are upheld by mgt.	71	1	5	2.79	1.01
KFA has an independent audit office	71	1	5	2.10	1.24
Board of Directors are independent	71	1	5	2.48	1.16

Table 3 show details of the measures of influence of control environment 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. From the above findings, it was clear that the respondents agreed that KFA Ltd has an accounting and financial ICS (M=4.22, S.D = .57), the respondents also agreed that the management was committed to the operation of the internal control systems (M=3.72, S.D.=.831), however, they disagreed that the management closely monitor implementation of I.C.S (M=2.56,S.D= 1.065), they disagreed that the management provides feedback to the junior officers about the operation of the system (M= 2.31, S.D= 1.022), disagreed that appropriate measures are taken to correct errors in operations of the accounting & finance I.C.S (M= 2.46,S.D=.998), disagreed that the management act with a greater degree of integrity in execution of its actions (M=

2.80,S.D=1.142), disagreed that ethical values are upheld in all management decisions (M= 2.79,S.D=1.013), others strongly disagreed that KFA Ltd has objective, independent and active audit office (M= 2.10,S.D= 1.244), that the Board of directors are not independent of Management (M=2.48, S.D= 1.157). From the above findings from the respondents, it is evident that despite having ICS, the management have failed to observe control environment measures as one of the functionality of internal control systems which greatly impacts on the financial performance of KFA Ltd.

Control Activities

The study analyzed the perception of the respondents on control activities of KFA Ltd as shown in Table 4.

Table 4: Descriptive Statistics for Control Activities

	N	**Min**	**Max**	**Mean**	**Std. Dev**
KFA Ltd has clear separation of roles every employee's work check on the others	71	1	5	3.68	.982
There is appropriate supervision by senior staff on the work of their juniors	71	1	5	2.87	1.13
Corrective action is taken to address weaknesses	71	1	5	2.35	.943
Staff are trained to implement the accounting and financial I.C. System	71	1	5	2.34	1.068
KFA Ltd has a well developed Chart of Accounts.	71	1	5	3.51	1.040
It is impossible for one staff to have access to all valuable information without the consent of senior staff	71	1	5	3.58	1.01
Controls are in place to exclude incurring expenditure above allocated in the Budget	71	1	5	3.21	1.16
Departments have budget reviews where actual are compared with budgeted expenditure and explanations for variances given	71	1	5	3.69	.919
KFA Ltd security system identifies and safeguard Assets	71	1	5	2.20	1.13

The findings showed that the organization has a clear separation of roles (M=3.68, S.D= .982), the respondents disagreed that there is appropriate supervision by senior staff on the work of their juniors (M= 2.87,S.D=1.133), they disagreed that corrective actions are taken to address weaknesses (M= 2.35, S.D= .943), disagreed that staff are trained to implement the accounting and financial management system (M= 2.34, S.D= 1.068). KFA Ltd has a well developed Chart of Accounts (M= 3.51,S.D=1.040), and it is impossible for one staff to have access to all valuable information without the consent of senior staff (M= 3.58,S.D= 1.009),the respondents agreed that KFA Ltd has a budget office for controls to exclude incurring expenditure in excess allocated in the budget (M= 3.21,S.D=1.158.), the departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given (M=3.69,S.D= .919), others disagreed that the security system identify and safeguard organizational assets (M= 2.20, S.D =1.129). It can therefore be concluded that KFA Ltd do not carry out its policies and procedures (control activities) appropriately which are important for financial performance.

Financial Performance

The respondents were asked to comment on the financial performance of KFA Ltd. Table 5 outlines the descriptive results.

Table 5: Descriptive Statistics for Financial Performance

Statement	**N**	**Min.**	**Max.**	**Mean**	**Std. Dev.**
KFA has enough cash to meet its obligations effectively (as and when they fall due)	71	1	4	1.59	.748
The profits made by branches is enough to cover their cost of running their operations	71	1	5	1.87	.877
Creditors are paid in time to avoid legal charges .	71	1	4	2.00	.845
Accounting system adequately identifies all the receipts and expenditure of the organization	71	1	5	3.14	1.187
KFA Ltd assets base has greatly increased over time	71	1	5	1.66	.940

From the information revealed by table 5, the respondents strongly disagreed that KFA Ltd have enough cash to meet its obligations effectively as and when they fall due (M=1.59,SD=0.748). It was revealed that the respondents disagreed that profits made by branches are enough to cover the costs of running their operations (M=1.87, SD=0.877). This has implications on the financial soundness of the organization because of its significance. The respondents disagreed that creditors are paid in time to avoid legal charges (M=2.00, SD=0.845). The information revealed could be an explanation as to the inadequacy of the cash position of the organization. The respondent agreed that KFA Ltd adequately identifies its receipts and expenditures

(M=3.14, SD=1.187). The respondents disagreed that KFA Ltd assets base have increased over time (M=1.66, SD=0.940) .This therefore casts high doubt on the financial soundness of KFA Ltd.

Inferential Analysis and Discussions

This section outlines the results of analysis of variance (ANOVA), correlation, coefficient of determination, and regression analyses. The study conducted ANOVA, in order to test the impact of the relationship between internal control systems and financial performance of KFA Ltd. The findings are as shown in Table 6.

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	2.620	1	2.620	7.751	.007[a]
	Residual	23.324	69	0.866		
	Total	25.944	70			

The results shown in Table 6 revealed that the level of significance was 0.007 which implied that the regression model is significant in predicting the relationship between internal control system and financial performance. By the help of an F-test table, the tabulated value for F (1%, 1, 69) is 6.85 which was less than 7.751 meaning that the model was statistically significant. Table 7 shows the results of regression analysis.

Table 7: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	p
Model	**B**	**SE**	**B**		
Constant	.479	.411		1.166	0.543
Control Environment	.664	.114	.081	.561	0.019
Control Activities	.490	.143	.169	1.329	0.039

Dependent variable: Financial Performance

The influence of internal control systems on financial performance was expressed using the following model.

$Y= 0.479+ .664X_1 + 0.490X_3$

Since all the p-values were less than 0.05, all the null hypotheses were rejected.

From the regression model holding all the other factors constant, financial performance is measured by the efficiency and effective implementation of internal control systems. The results of the multiple regression model shows that there is a positive relationship between internal control systems and financial performance of KFA Ltd. This implies that 0.664 unit increase in control environment and 0.490 unit increase in control activities resulted in a unit increase in financial performance of the organization.

SUMMARY

The study found out that management of KFA Ltd is not committed to the internal control systems of the organization and they don't actively participate in monitoring and supervision of the activities of KFA Ltd. The study also revealed that all the activities of KFA Ltd are initiated by the senior managers. On the influence of control environment, the study found out that internal audit office is not objective, independent and active, does not conduct regular audit activities independently and effectively. Regarding control activities, the study found that, there is no clear separation of roles from supervision of activities by senior staff, weaknesses that are realized are not addressed, and there is no training program for capacity building in the organization. However, the study also found out that there is lack of information sharing in the organization and also no security measures put in place to safeguard the assets of the organization.

The study found out that KFA does not have enough cash to meet its intended goals, and that the cash realized is not sufficient to run the operations of the branches. The study further revealed that creditors are not paid in time to avoid legal charges. However, it was also found that all revenues and expenditures are not properly classified, and that assets of the organization have greatly reduced.

CONCLUSIONS

It was concluded that KFA Ltd has very weak, ineffective internal control systems as supported by the study findings of no clear separation of roles, supervision, training, monitoring and commitment of management. There are challenges in the implementation of the existing internal control systems especially considering that the audit office is not objective, independent and active to ensure that internal control systems are enhanced and well extended to the branches which clearly has affected their efficiency and financial performance as revealed by this study. On financial performance of KFA Ltd, the study concluded that the organization has a serious liquidity problem and this is not appropriate for its survival, details of which are directly in the study.

RECOMMENDATIONS

The organization should enhance audit office to make it objective, independent and active to ensure that internal control systems are enhanced and well extended to the branches which clearly has affected the efficiency and financial performance as revealed by this study. The study also recommends that the organization establishes a strategy for improving the generation of additional finances for the operations of KFA Ltd. This could be done through diversification of the current business, other competitive endeavors which are directly aimed at winning funds for the organization. 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 organization such as behavioral/ethical issues of the employees, financial stress of employees, and modern information technology.

LIMITATIONS AND FURTHER STUDIES

The major limitation of the study was on the skepticism of some respondents in participating in the study. To counter this challenge the researcher explained to them the purposes of the study and the likely benefits of their organization from the study. Another limitation was on the research instrument which was found to be quite limiting in collecting data from the respondents. In regard to the foregoing, the researcher ensured that the instrument was as objective as possible in that it could be employed to collect as much data as possible relative to the study objectives.

It is recommended that scholars and researchers can embark on empirical studies on the influence of ICT on the effectiveness on internal control system; and also on the effects of cultural and behavioral factors on the performance of Kenya Farmers' Association Limited.

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