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INVESTIGATING THE LINK BETWEEN INTERNAL CONTROLS AND FINANCIAL PERFORMANCE IN TECHNICAL COLLEGES: A CASE OF KABWE INSTITUTE OF TECHNOLOGY.

A DISSERTATION SUBMITTED

TO

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ABSTRACT

This study conclusively looked at the link between internal controls and financial performance in institutions and colleges under Technical Education, Vocational and Entrepreneurship Training (TEVET) Management Boards in Zambia. Internal controls were viewed from the Control Environment, Control Activities and control monitoring points of view whereas financial performance laid stress on liquidity and accountability as the measures of financial performance. The study was centered on Kabwe Institute of Technology (KIT) Management Board which has a total workforce of 90 employees out of which a sample of 50 employees was selected.

The research was conducted using both quantitative and qualitative approaches using descriptive design, questionnaires and interviews as Research Designs. Data was analyzed using descriptive statistics, totals, percentages, tables and charts. Further, simple analysis was done using Microsoft Excel Program.

The findings of the study were that management of the institutions is committed to the control systems and actively participates in monitoring and supervision of the activities of the institutions and colleges under Technical Education, Vocational and Entrepreneurship Training Management Boards in Zambia. It was further revealed that there was a clear separation of roles; weaknesses in the system were addressed. Additionally, it was discovered that the financial resources were inadequate to meet the intended obligations effectively and efficiently as and when they arose, that the fees charged to students were not enough to cover costs, that all fees meant to be remitted to the Technical Training Institutions in Zambia were not collected due to poor or no record keeping mechanisms for debtors.

The study established a significant relationship between internal control and financial performance. There should be a strategy to improve the generation of additional finances for the institutions and colleges under Technical Education, Vocational and Entrepreneurship Training

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Management Boards in Zambia. The Study concludes that internal controls do function to some extent and that there is a noticeable link between internal controls and financial performance in these institutions and colleges. It was recommended that management of Kabwe Institute of Technology should devise more robust internal control mechanisms so as to enhance financial performance.

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DEDICATION

This paper is dedicated to my children, Beauty, Celine and Chisomo for their moral support during the time I was deeply immersed in the research work.

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CHAPTER ONE

1.0 INTRODUCTION

This section brings to the fore the background of the study, statement of the problem, purpose of the study, significance of the study, theoretical framework and research variables. Further, this section presents objectives of the study, research questions, scope of the study, operational definitions as well as limitations that the study encountered

1.1 Background

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Every organization requires resources (financial and non financial) for it to function efficiently and effectively. For these resources to be secure there is need to devise robust set of internal controls. Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity's objectives, goals and missions (Brennan & Soloman, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for: - handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts.

Internal Controls are processes designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (David, 2001).

Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives. For the purpose of this study, components of internal controls (ICS) will be limited to three; control environment, control activities and monitoring of controls (Anduuru, 2005).

Control Environment - The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people (Whittington and Pany, 2001). Management attitude should be committed to ethical

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business practices and to following the established control procedures. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: Integrity and ethical values; the commitment to competence; leadership philosophy and operating style; and the way management assigns authority and responsibility, and organizes and develops its people (Anduuru, 2005).

Control Activities - Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Colbert & Bowen, 1996). Control activities usually involve two elements: a policy establishing what should be done and procedures to put the policy in motion. All policies must be implemented thoughtfully, conscientiously and consistently (Anduuru, 2005).

Monitoring of Controls - Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance (Colbert & Bowen, 1996).

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied may evolve once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally

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designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks (Roth, 1997).

Internal controls are put in place to keep organization on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth. Internal controls promote efficiency, reduce risks of asset loss and help to ensure the reliability of financial statements and compliance with laws and regulations (COSO, 2011).

Because internal controls service many component purposes, there are increasing calls for better internal control systems; internal control is looked upon more and more as a solution to a variety of potential problems (COSO 2011). According to Ridley and Chambers (1998), internal controls are systems comprising the control environment and control procedures. They further state that the internal control systems include all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objective of efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completion of the accounting records and timely preparation of reliable financial information.

Successful organizations ensure that they attain and consolidate continued survival in a competitive environment (Drucker (1999). Thus successful organizations set performance measures that focus attention that identifies and communicates the success, support organization learning and provide a basis for assessment and reward (Brown, 1996).

On the other hand, Financial Performance means the firms' overall financial health over a given period of time. Finance is always disregarded in financial decision making for it involves investment and financing in short-term period. Additionally, finance acts as a restraint in

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financial performance since it does not contribute to return on equity (Refuse, 1996). A well designed and implemented financial management system is expected to contribute positively to the creation of the firm's value (Padachi, 2006)

Financial performance is measured in terms of customer satisfaction, profitability, market share through reduced customer complaints (Kloot, 1999). In order to be able to perform, organizations should critically and level headily look at customers and all stakeholders in business and know how best they are satisfying their needs. According to (Kloot, 1999) organizations should continuously improve their services through assets accumulation; create value, improved quality services and flexibility. Internal control system is intervened with organization's operating activities and it is most effective when controls are built into the organization's infrastructure, becoming organization's part of the very essence of the organizations success in terms of continued improvement on performance standards as part of the competitive advantage of the organization.

Financial performance analysis is the process of determining the operating and financial characteristics of a firm's accounting and financial statements. The goal of such an analysis is to determine the efficiency and effectiveness and performance of the firm's management, as reflected in the financial records and reports (Donald & Delno, 2009). This is so because successful businesses have learned how to operate within the limits of their available cash resources.

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

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

Kabwe Institute of Technology (KIT) has played a key role in the training of students at craft certificate, advanced certificate and diploma levels in Zambia. It boasts of offering quality training in the area of Technical Education. For this to be achieved there is need to have in place adequate resources in terms of human capital and financial resources. Since the main sources of finance are student fees, there in need to up the enrollment levels. Financial resources play a very crucial role in as far as motivating the work force is concerned through the payment of market comparable remunerations. Indeed poor cash flows make it difficult to hire and retain good employees (George, 2009)

Financial Performance of institutions and colleges under Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), Kabwe Institute of Technology inclusive, has remained a big challenge in the modern competitive business environment. Regardless of the internal control practices, it is evident that these institutions in Zambia are inefficient and ineffective based on their practices. Nevertheless, this study aimed at investigating the link between internal controls and financial performance of institutions and colleges under TEVET Management Boards in Zambia

1.2 Statement of the problem

Internal controls have been put in place to ensure safe custody of all assets; to avoid misuse or misappropriation of assets and to detect and safeguard against probable frauds. Control itself exists to keep performance of an organization within what is expected by the organization, control built within a process is internal in nature and takes place with a combination of

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interrelated components such as social environment affecting behavior of employees, information necessary in control and policies and procedures (COSO, 2001).

The internal control is an essential corporate governance mechanism of the firm based on internal control statement quality that it should be to control effectiveness and also influences the reliability of financial reporting both in internally and externally (Skaife et al, 2007). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity's management and board members that the organization's objectives will be achieved. In fact,the likelihood of achievement is affected by limitations inherent in all systems of internal control (Gerrit and Abdolmohammadi 2010). Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations (Emasu, 2010).

Kabwe Institute of Technology (KIT) like many other institutions under Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) has been experiencing financial challenges resulting in the late payment of salaries and other related allowances in some cases. The challenges keep intensifying from one year to the other. Interestingly, these challenges seem not to subside despite the enrolment levels of students increasing due to the introduction of new programs.

The study therefore endeavored to investigate the persistent poor financial performance from the perspective of internal controls which seemed to have been ignored or was nonexistent at Kabwe Institute.

1.3 Purpose of the study

The study sought to investigate the link between internal controls and financial performance in institutions and colleges under TEVET in Zambia

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1.4 Research objectives

1.4.1 General objective

To establish the link between internal controls and financial performance in institutions and colleges under TEVET in Zambia

1.4.2 Specific objectives

1. To analyze the existing internal controls on financial performance at Kabwe Institute of Technology.

2. To examine the link between internal controls and financial performance of Kabwe Institute of Technology.

3. To examine the effectiveness and efficiency of the existing internal controls on the financial performance of Kabwe Institute of Technology.

1.5 Research questions

1. What internal controls are in place over financial Performance at Kabwe Institute of Technology?
2. What is the link between internal controls and financial performance?
3. Are the internal controls that are in place effective and efficient?

1.6 Research variables

The variables in the research topic: The link between internal controls and financial performance in institutions and colleges under TEVET in Zambia: a case study of Kabwe Institute of Technology (KIT), were as presented in the following table:

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INDEPENDENT VARIABLE	DEPENDENT VARIABLE
Internal control activities Control environment Control monitoring	Financial performance

1.7 Significance of the study

The study was relevant because the research findings would be used to provide information to the following stakeholders for action:

- The government and the general public to understand the internal controls of the Kabwe Institute of Technology and appreciate how they affect financial performance.
- Policy makers (the board, management and government) and employees to understand the constraints of Kabwe Institute of Technology and perhaps provide alternative solutions to improve the financial performance so as to keep the institute afloat.

1.8 Theoretical framework

This study lays stress on the link between internal controls and financial performance in institutions under (TEVET) in Zambia.

Modern thinking about internal controls and financial performance has been influenced by agency theory. For the purpose of this study, therefore, agency theory will be used. This theory holds that managers will not act to maximize the returns to shareholders (stakeholders) unless appropriate governance structures are put in place in an organization to safeguard the interests of shareholders (Jensen and Meckling, 1976). The management board has an important function

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here, in particular the relationship between the chairperson and the chief executive officer (CEO) is key (Tricker, 1984). Stakeholder interest will be safeguarded only where the chair of the board is not held by the CEO where the CEO has the same interests as the shareholder's through an appropriately designed incentive compensation plan (Williamson, 1985).

The agency theory argues that in the modern corporation or institution in which share ownership is widely held, managerial actions depart from those needed to maximize shareholder value (Pratt and Zeckhauser, 1985). In agency theory terms, the owners are principals and managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercise direct control of the corporation (Jensen and Meckling, 1976). Agency theory specifies mechanisms which reduce agency loss (Eisenhardt, 1989). These include incentive schemes for managers which reward them financially for maximizing shareholder interests.

In order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interests of both the agent and the principal (Berle and Means, 1932). They further explained that the relationship is further strengthened by the principal employing an expert to monitor the agent. The preparation of final statements, budgeting are some of the mechanisms used in business (Jensen and Meckling, 1976). Their argument assumed that providing this additional information to the principal (shareholder) about the behavior of the agents (management) reduces information asymmetry and lowers risk of poor financial mismanagement.

Arising from the aforesaid, the agency theory had been considered appropriate for this study since it clearly demonstrated how management as agents should carry out their duties and responsibilities in the area of finance. As they perform their roles, management (agents) should know that what was paramount were the interests of the principal (government, management board and the general public). When this was recognized internal controls and financial performance would be enhanced.

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1.9 Scope of the study

The study did investigate the link between internal controls and financial performance in institutions under TEVET in Zambia. Additionally, the study also included conclusions and recommendations.

1.10 Limitations of the study

The decision to restrict the study to Kabwe Institute of Technology would not in any way imply that other colleges and institutions under TEVET were less important but was based on the following factors:

- Limited time during which the research study was to be carried out.
- Insufficient finances during the time of conducting the study
- The sample size of Fifty only would be selected for the study

1.11 Operational definitions of terms

Liquidity- a measure of the extent to which a person or organization has cash to meet immediate and short-term obligations, or assets that can easily be converted to do this.

Accountability – the obligation of an individual or organization to account for its activities, accept responsibility for them and to disclose the results in a transparent manner.

Business –provision of goods and services to consumers

Finance – management of incomes or revenues

Financial performance – measure of how well resources are being used

Government – system by which state is controlled

Financial statements – formed record of financial activities

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Accounting – systematic recording of financial transactions

Stakeholder – Party that has an interest in the organization

Terminal benefits – final entitlement of employee at end employment contract

Resources – supply of money, materials and employees

Leadership – ability to lead a group of people

Management – process of controlling people

Policy – rule, guideline formulated

Investigate – find out

Management Board – body appointed to oversee the activities of an organization

General public – ordinary people

Investment – to allocate money for future benefits

Internal controls – systems put in place to safeguard organizational resources, i.e. assets

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter outlines internal control and financial performance, measures of financial performance. The chapter reviews literature on internal controls and financial performance in Technical Education Vocational and Entrepreneurship Training (TEVET) Institutions. The review of literature particularly focuses on control environment, control activities control monitoring, the main components of internal control. Attempts to establish whether there is a positive correlation between internal control system as an independent variable and financial performance as a dependent variable are made. The review of literature examines financial performance particularly focusing on liquidity, accountability and other performance measures for the purpose of the study. The chapter then discusses the link between internal controls and financial performance of TEVET institutions globally, regionally and from a Zambian perspective. Literature review examines the link between internal controls and financial performance in institutions and colleges under TEVET in Zambia but with particular focus on Kabwe Institute of Technology.

The theoretical basis for establishing a link between financial performance and internal control systems has been documented in various literatures. Internal control systems that have been confirmed to have a relationship with business organization financial performance include: organization, segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement of performance and budgeting (Weber, 1998).

As earlier alluded to, internal control system is a critical component of an organization's management and a foundation for its safe and sound operations (Drogalas et al., 2005; Karagiorgos et al., 2010). Internal control comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls (Hayes et al., 2005). However, for purposes of this study, the research narrowed down to only three components of the internal control system. These are; the control environment, monitoring of controls and control activities. The other components of the internal control systems were held constant

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

2.1 Global perspective

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Globally, internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control system (Verschoor, 1999). A focus on integrity and ethical values was the principal contribution of Internal Control— Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (on fraudulent financial reporting), (COSO, 2001).

Most management of the financial institutions within the developed countries have in the recent past strengthened their internal control systems especially after the collapse of the leading companies for instance Enron, General Motor in USA and others (COSO, 2001). In America was introduced the law called the Sarbanes Oxley Act of (2002), among other things requires the corporation or organization to establish and maintain an adequate internal control structures and procedures for financial reports and maintain an assessment of the effectiveness of the internal control system and procedures. The internal control system is among the most important aspects in most financial institutions (banks) in both developed countries' corporations and overall operation of the entities.

To trigger independence of auditors, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 78.
This statement requires auditors to perform procedures on every audit to enable them to understand their client's control environment including integrity and ethical values. In other words, auditors are specifically required to determine whether their clients' ethical controls are operating. SAS No. 78 points out those ethical values and other elements of the control environment permeate the culture of an organization and affect the strength of all other controls (Verschoor, 1999)

A study carried out by Palfi and Muresan (2009) examined the importance of a well organized system of internal control in regard with the technical education sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers revealed that the

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continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department.

A study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi technical education sector. The results of the study revealed that the vast majority of Saudi institutions have adequate security controls in place. The results also enable managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of technical institutions (Simiyu, 2011).

2.2 Regional perspective

Regionally, a number of studies to establish the link between internal controls and financial performance have also been carried out as below:

A study by Khamis (2013) found out that there is a significant positive relationship between internal control system (control environment) and financial performance of technical training institutions. In his research Mawanda (2008) established that there is a positive relationship between control environment and financial performance of institutions of higher learning in Uganda as portrayed by his case study of Uganda Martyrs University.

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

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

2.3 Zambian perspective

From a Zambian perspective, Zambia started reforming its policy on technical education and vocational training (TEVET) in 1994. The TEVET reforms were aimed at making the system more responsive than before. Among the main objectives that TEVET reforms aimed at achieving was:

'To diversify the sources of TEVET financing through the establishment of funding mechanism based on the principle of cost sharing among beneficiaries of training' (TEVET Development programme operations Manual, 2006).

Consequently, a new policy known as the TEVET policy was established in 1996 and subsequently the TEVET strategy paper in 1997.

The TEVET system in Zambia is financed through a variety of sources. Konayuma (2008) itemizes the sources as follows

- Government provides funding to public TEVET institutions through the relevant Ministries. Funds are used to subsidize training fees and for operational costs of TEVET institutions.
- Charities and donors ensure funding for community-based and faith-based TEVET providers. Those organizations subsidize TEVET training for socio-economically disadvantaged learners.

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- Training fees are a significant source of funding for both public and private TEVET providers. However, fees charged by private institutions are not regulated while public TEVET institutions need to seek approval for training fees from the corresponding ministries.

- Industry provides funding for enterprise-based training allowing students to train directly at the workplace.

- Established under the TEVET (Amendment) Act. No. 11 of 2005, the TEVET Fund serves a source of funding for public and private providers. The Government provides funds for the Fund which are consequently awarded to pre-determined training programmes at public training institutions.

The Zambian Government policy on TEVET marked the end of phase one of the reform process. The policy was meant to be a guide to the reform of the training system. The strategy was subsequently developed to provide strategies for implementing the new policy on TEVET. The strategy paper also provided an action plan for implanting the necessary reforms.
To facilitate the implementation of the policy and strategy, parliament passed the TEVETA ACT, (No. 13 of 1998) which provided for the establishment of Technical Education Vocation and Entrepreneurship Training Authority (TEVETA) and management boards in all the training institutions that provided technical education and training.

Prior to the reforms, technical education and vocational training was under the Department of Technical Education and Vocational Training (DTEVT), a department in the Ministry of Science and Technology (MSTVT), as provided for under the Technical Education and Vocational Training act of 1972.

Since the institutions were to procure and manage their own financial and non-financial resources, there arose the need to strengthen the internal controls. This therefore meant that those charged with governance, management and other personnel needed to provide reasonable assurance about the achievement of an entity's financial performance.

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According to Donald (2009) appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. It can therefore be argued that internal controls can help an entity achieve its financial performance targets and prevent loss of resource. Research has shown that internal controls can help ensure reliable financial reporting and ensure that the enterprise complies with laws and regulations avoiding damage to its reputation and other consequences.

Zambia as a developing nation tries to strengthen the internal control system, through their agencies such as the Central Bank. The Ministry of finance encourages the spending institutions (agencies) to emphasize implementation of effective internal control system. The management boards of every technical institution shall approve proper policies and procedures, and adequate overall internal control systems, for monitoring and controlling the risks.
(BAFIA, 2006).

The Bank of Zambia (BOZ) and other agencies provide guidelines on how public financial resources should be managed through the following Acts; Public Finance Act (2004), Public Procurement Act (2005), Banking and Financial Institution Act (2006), Bank of Zambia Act (2006) and their regulation such as money laundering Act (2009).

2.4 Personal critique and establishment of a gap

Literature has apparently revealed that a lot of research has been done to establish the link between internal controls and financial performance in technical education institutions globally and regionally. However, at national level literature has revealed a general perspective of the link between internal controls and financial performance for it did not focus specifically on Technical Training Institutions in Zambia. Arising from the aforesaid, it is clear that, there are many areas about internal control in relation to financial performance in technical colleges under TEVET in Zambia that have not yet been fully addressed. It is for this reason that this study seeks to investigate the link between internal controls and financial performance of technical colleges under TEVET in Zambia with particular focus on Kabwe Institute of Technology.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives an overview of the procedures used to collect the necessary data required to achieve the research objectives and the method employed to analyze the data collected. The chapter starts with the explanation of the research design used, a description of the population as well as the sample size and sampling techniques used. Additionally, the chapter gives a description of data collection instruments used, procedures for data collection used and outlines the data analysis techniques, triangulation and ethical considerations employed

3.1 Research design

In order to obtain accurate information as the researcher investigated the link between internal controls and financial performance in institutions of Technical Education, Vocational and Entrepreneurship Training Management Boards in Zambia, the study used both qualitative and quantitative approaches. The descriptive design was used in this study. Osuala (2010) asserts

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that using descriptive design minimizes errors and biasness. Consequently, the choice of descriptive design was made so as to enhance validity and reliability of the research findings.

3.2 Target population

Since the purpose of this study was to investigate the link between internal controls and financial performance in institutions under Technical Education, Vocational and Entrepreneurship Training in Zambia, the study recruited employees of the institution. The institution had a total population of Ninty (90) employees who include Fifty (50) lecturing staff, Five (5) Heads of Department, One (1) Principal, One (1) Training Manager, Fifteen (15) Administrative Staff, and Eighteen (18) General Workers.

3.3 Sample size

The sample of this study comprised Fifty (50) employees who included Seven (7) Management officials, Twenty Five (25) Lecturing staff, Nine (9) Administrative staff and Nine (9) General workers. A total of Fifty (50) questionnaires were distributed.

3.4 Sampling technique

The technique of probability sampling was used in choosing the sample of the study.

3.5 Instruments for data collection

Data in this study was gathered using questionnaires and unstructured interviews.

3.5.1 Questionnaires

According to Cooper and Schindler (2006) a questionnaire is an instrument delivered to the participant via personal (intercept, phone) or non personal (computer-delivered, mail delivered) means that is completed by the participant. The researcher did design a questionnaire that

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targeted employees as earlier alluded to. The questions in the questionnaire were structured. This method was used to expose respondents to the same number and type of questions in order to aid homogeneity which is a significant factor in questionnaire formulation. The questionnaire comprised both open ended and closed ended questions. The open ended questions were used to avail respondents a chance to express their views or ideas without restriction. On the other hand, closed questions direct the respondents towards making fixed number of responses (Mwansa, 2005).

3.5.2 Unstructured interviews

Unstructured interviews were used in order to obtain supplementary information. The responses were collected, arranged, analyzed and filtered so as to ensure that only useful responses were used.

3.6 Procedure for data collection

For the participants enrolled in this study, informed consent was obtained from each of them without undue influence. The use to which information obtained from them was to be put was explained explicitly.

The questionnaires were physically delivered to each respondent by the researcher to avoid wasting time since all the participants were situated within Kabwe District.

3.7 Data analysis techniques

The researcher analyzed the collected data manually using descriptive statistics, using totals, percentages and tables. The quantitative data was analyzed and summarized through the usage of narrations. Additionally simple analyses were done using Microsoft excel.

3.8 Triangulation

Triangulation was applied in this study in that more than one method was used to gather data. The study specifically used structured questionnaires and unstructured interviews, as earlier pointed out, to get the needed data.

Further, these methods were used so as to minimize bias and also facilitate validation of data through cross verification from more than two sources (Kennedy, 2009). As an ongoing process, literature review continued even during data analysis because the researcher needed to look for more literature to substantiate the findings as part of theoretical triangulation.

3.9 Ethical consideration

Before data collection for this study, the researcher endeavored to explain the purpose of the exercise to the participants and informed consent was obtained from those who agreed to participate in the study. In addition the questionnaires did contain an assurance that confidentiality was to be maintained

Authority to conduct the study at the institution was sought both verbally and in writing from the head of the institution. See appendix 2

Furthermore, measures were taken to preserve the anonymity of the respondents by not soliciting for names (Mwansa, 2005). Therefore, all the necessary ethical guidelines were considered in this research.

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CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.0 Introduction

This chapter presents the analysis of data obtained from the questionnaires by focusing on specific variables. Thereafter, it brings to the fore the presentation of the findings from the survey. The presentations are in form of tables, statements, charts and graphs.

4.1 Variable analysis

This section looks at the analysis of selected variables from all the questionnaires distributed to the respondents. It highlights extensively the distribution of each variable chosen in relation to the total sample chosen in the institution. The institution concerned is Kabwe Institute of Technology. The questionnaires were distributed to Management; lecturing staff (lecturers) accounts staff and the administrative staff and general staff.

4.1.1 Description of distribution of questionnaires

The table below shows that 6 questionnaires representing 12% were given to management staff, 25 representing 50% was given to the lecturing staff, 10 representing 20% were given to administration staff while 4 representing 8% were given to accounting staff and finally 5 representing 10% were given to general workers. As earlier alluded to, a total of Fifty (50) questionnaires were distributed and interestingly all of them were responded to resulting into 100% return rate.

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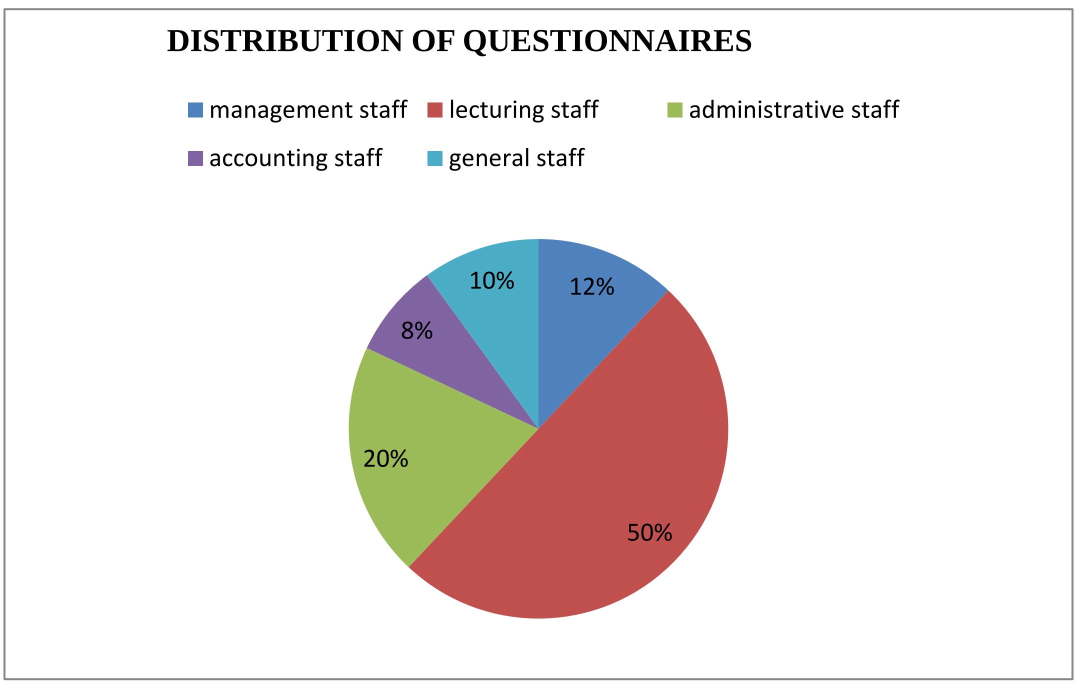
Table 4.1.1 Distribution of questionnaires

CATEGORY	NUMBER	PERCENTAGE (%)
Management Staff	6	12
Lecturing Staff	25	50
Administrative Staff	10	20
Accounting Staff	4	8
General Staff	5	10
TOTAL	**50**	**100**

Source: research data

The data above can further be illustrated in chart 4.3.1 below:



4.1.2 Distribution by gender

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The majority of the respondents in the sampled population were (42) male representing 84% while 8 representing 16% were female. Table 4.1.2 below shows the distribution by gender.

CATEGORY	NUMBER	PERCENTAGE (%)
Male	42	84
Female	8	16
TOTAL	**50**	**100**

Source: research data

4.1.3 Description of the positions of respondents in the institution

The study sought and collected data as regards the positions held by the respondents in the institution for purposes of gaining an understanding into their role in the variables of study. The data of the respondents and their positions are shown in table 4.1.3 below.

Table 4.1.3 Positions held in the institution

CATEGORY	NUMBER	PERCENTAGE (%)
Principal	1	2
V/Principal	1	2
Head Of Department	4	8
Lecturer	25	50
Accounts/Finance Officer	4	8
Administrative Staff	10	20
General Staff	5	10
TOTAL	**50**	**100**

Source: research data

Chart 4.1.3. Below further illustrates the data above

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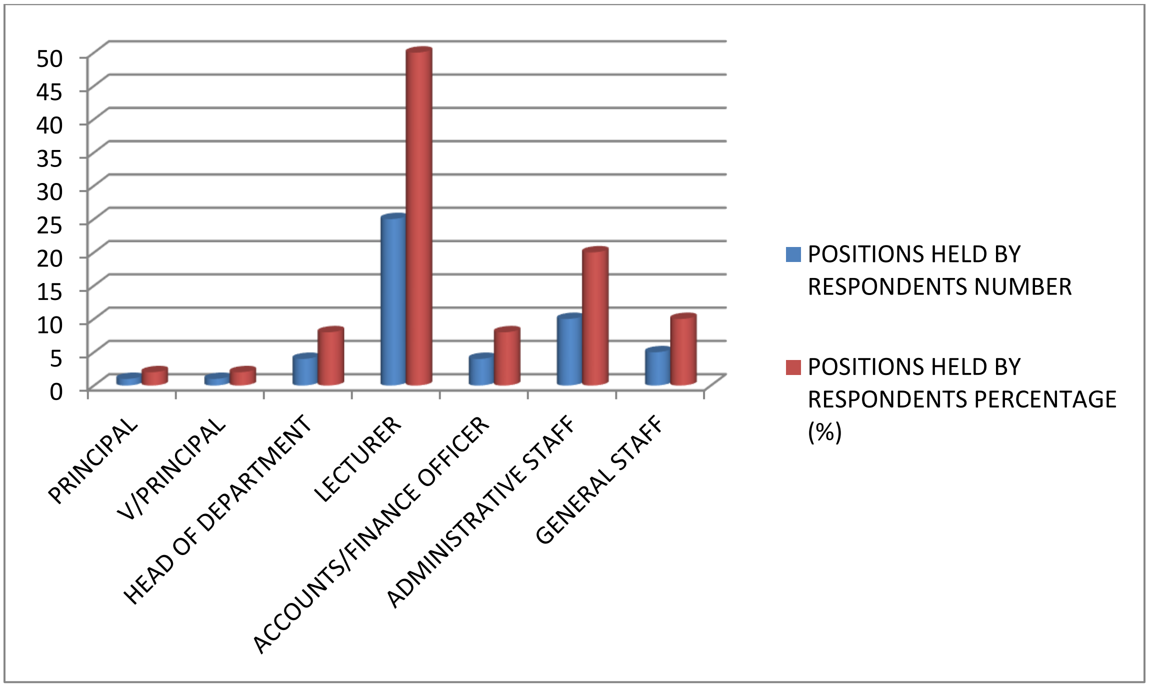


The analysis results in table 4.1.3 above show that the majority of the respondents in the study were Lecturers (25), followed by Administrative staff (10), then General staff (5), Heads of department and Accounts staff (4 each) and finally principal and Vice principal (1 each). These represent 50%, 20%, 10%, 8% and 2%respectively. From the description above, it is clear that the majority of the respondents in this study were those assumed to have a general understanding of internal control system and financial performance. As a result their responses were deemed to reflect what actually happened in the institution.

4.1.4 Distribution by age

As can be seen from the table below, the majority of the respondents (25) representing 50% were aged above 50 followed by those aged between 31-40 at 32% while those aged between 41-50 were at 14% and lastly 4% were between 20-30 years.

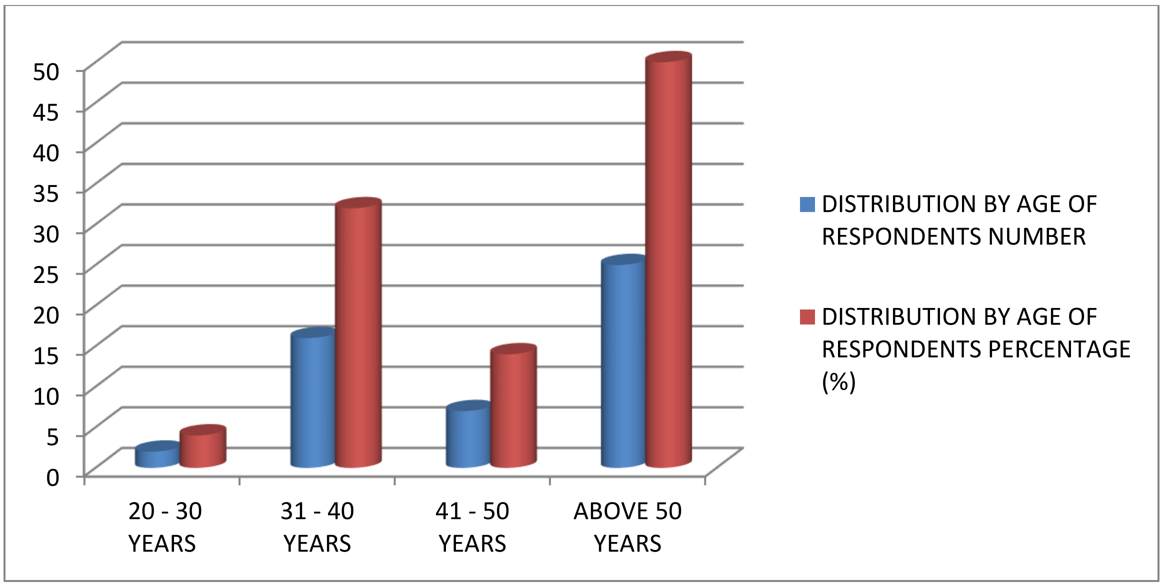
Table 4.1.4 Respondents' ages

CATEGORY	NUMBER	PERCENTAGE (%)
20 - 30 Years	2	4
31 - 40 Years	16	32

41 - 50 Years	7	14
Above 50 Years	25	50
TOTAL	**50**	**100**

Source: research data

The data above can further be illustrated in chart 4.1.4 as below:



Source: research data

4.1.5 Description of professional qualifications

Table 4.1.5 Professional qualifications held

CATEGORY	**NUMBER**	**PERCENTAGE (%)**
Certificate	2	4
Diploma	29	58
First Degree	17	34
Other	2	4

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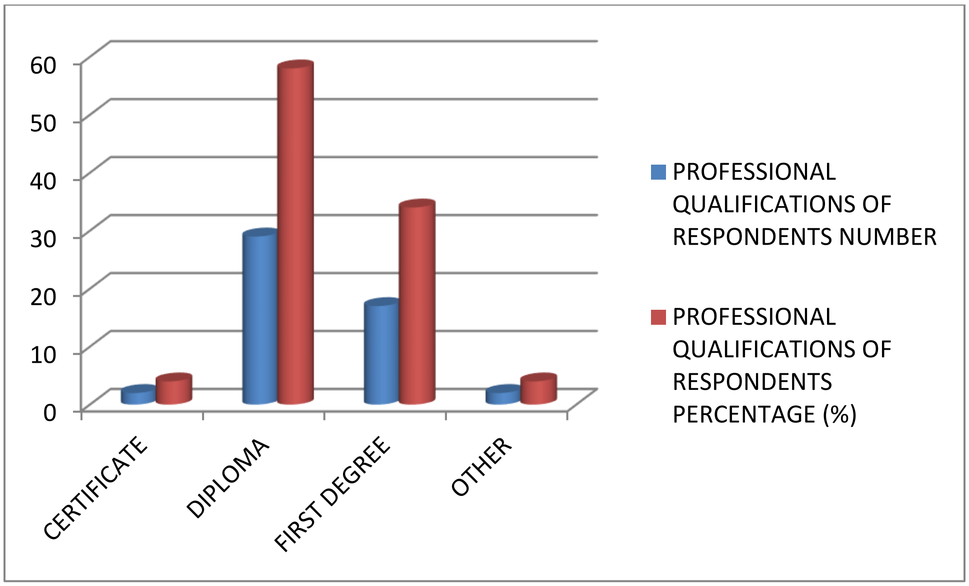
Total	**50**	**100**

Source: research data

The table above shows the qualifications which the respondents in the study held. The table clearly shows that the majority of the respondents (29) representing 58% had diploma followed by (17) representing 34% who had first degree, while (2) each representing 4% had certificate and masters degrees (other) respectively.

The data above can further be illustrated graphically in chart 4.1.5 below:



Source: research data

4.1.6 Existence of internal controls

Respondents were asked as to whether there existed internal controls in the institution. Interestingly the majority of the respondents (41) representing 82% acknowledged that internal controls did exist while (9) representing 18% said the variables under review did not exist in the institute. Table 4.1.6 below gives details of the respondents' responses.

Table 4.8.1 existence of internal controls

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	41	82
No	9	18
TOTAL	**50**	**100**

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Source: research data

4.1.7 Staff affected by internal controls

The study sought and obtained data as regards those who were affected by the internal controls in place in the institution. Details of the distribution of the respondents are shown in table 4.9.1 below:

4.1.7 Staff affected by internal controls

CATEGORY	NUMBER	PERCENTAGE (%)
Finance And Accounts Staff	11	22
All Staff	34	68
Others	2	4
No Response	3	6
Total	**50**	**100**

Source: research data

From the table above (34) respondents representing 68% revealed that internal controls affected all staff, followed by (11) respondents representing 22% who said only finance staff were affected by internal controls, while (3) representing 6% were of the view that internal controls affected others and finally (2) representing 4% gave no response.

The above data can further be illustrated as in chart 4.1.7 below:

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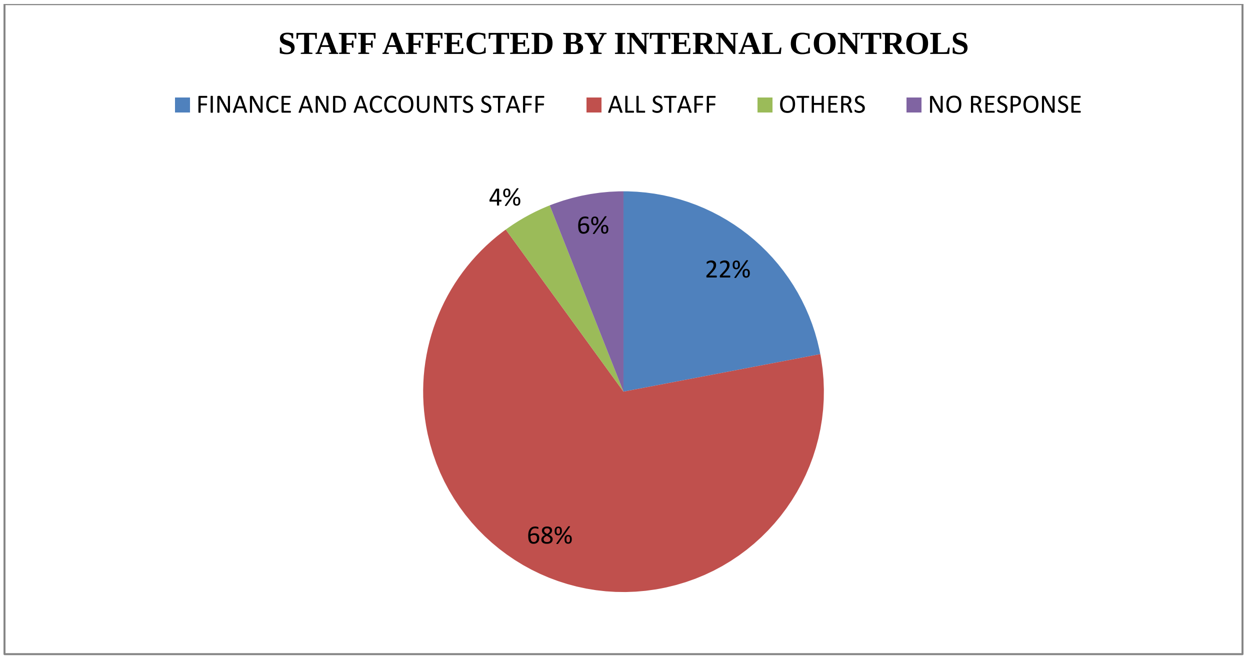

Source: research data

4.1.8 Strategies for implementing internal controls

Table 4.1.8 strategies for implementing internal control

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	21	42
No	29	58
Total	50	100

Source: research data

As shown in table 4.1.8. (29) representing 58% of the respondents said that there were no strategies in place to implement internal controls while 21 representing 42% revealed that strategies to implement internal controls were in place.

4.1.9 Activities necessary to implement internal control systems

Data obtained from the respondents showed that (17) representing 34% said activities needed to implement internal controls did exist and were communicated to the staff while (33) representing

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66% said such activities were not in existence in the institution. Table 4.1.9 below shows the distribution of the responses.

Table 4.1.9 strategies for implementing internal controls

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	21	42
No	29	58
Total	**50**	**100**

Source: research data

4.1.10 Responses on the link between internal control and financial performance

The study sought and obtained details about the respondent's awareness of the link between internal control and Financial Performance in the institution. Details of the responses of the respondents are shown in table 4.1.10 below:

Table 4.1.10. Responses on the link between internal controls and financial performance

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	31	62
No	19	38
Total	**50**	**100**

Source: research data

From the table above it was clear that the majority of the respondents (31) representing 62% acknowledged that there was a link between internal control and financial performance while (19) representing 38% said there was no link between the variables under review in the institute.

4.1.11 Commitment of management to the implementation of internal controls

As shown in table 4.1.11 below (30) representing 60% did acknowledge that management was committed to the operation of the system of internal control while (20) representing 40% said managementt in the institute was not committed.

Table 4.1.11 commitment of management

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	30	60
No	20	40

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Total	**50**	**100**

Source: research data

4.1.12 Description of policies of credit management and control

Of the 50 respondents surveyed in the study, 11 representing 22% said credit management and control policies were adequate while 39 representing 78% revealed that the said policies were not adequate in the institution. Table 4.1.12 highlights the distribution of the respondents' responses.

Table 4.1.12 policies of credit management and control

CATEGORY	NUMBER	PERCENTAGE (%)
Adequate	11	22
Not Adequate	39	78
Total	**50**	**100**

Source: research data

4.1.13 Adequacy of policies to ensure fees collection

As shown in table 4.1.13, 17 out of the 50 respondents representing 34% acknowledged that the policies to ensure efficiency and effectiveness in terms of collection of fees due from students were adequate while 33 out of the 50 respondents accounting for 66% said the policies were not adequate in the institution.

Table 4.1.13 Adequacy of policies to ensure efficiency and effectiveness in terms of collection of fees due from students

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	17	34
No	33	66
Total	**50**	**100**

Source: research data

4.1.14 Monitoring the implementation of internal controls

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The study sought and obtained data about how the implementation of internal controls was monitored. 20 representing 40% said that implementation of internal controls was adequately monitored while 30 representing 60% of the respondents revealed that there was no implementation of internal controls. Details of the distribution of the respondents are given in table 4.1.14 below:

Table 4.1.14 Monitoring the implementation of internal controls

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	20	40
No	30	60
Total	**50**	**100**

Source: research data

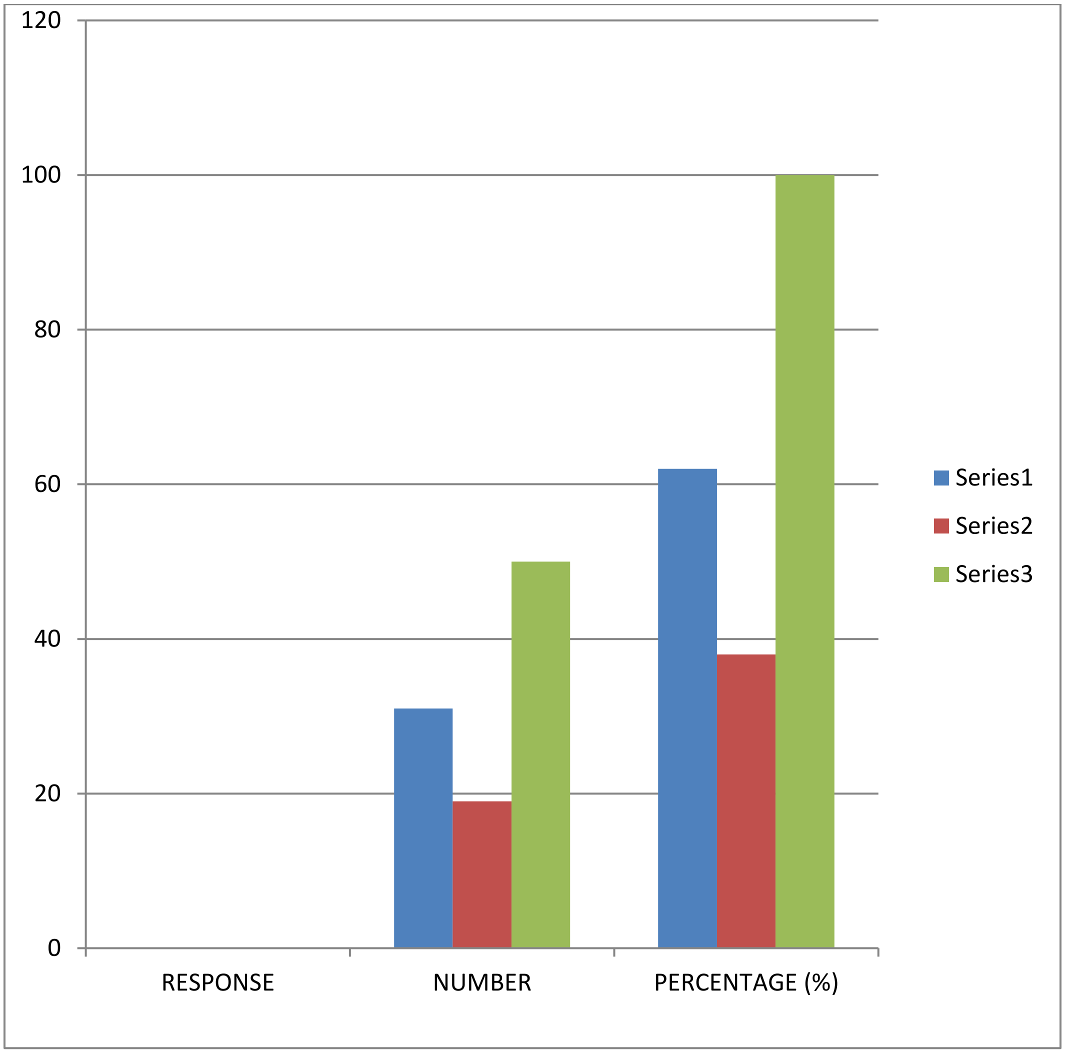
4.1.15 Measures to remedy flaws in the operations of financial management system

Out of the Fifty (50) respondents surveyed, 31 representing 62% acknowledged that there were measures that were taken to remedy flaws in the operations of finance management system. On the other hand 19 out of 50 respondents representing 38% said that such measures were not taken. The distribution of the respondents is shown in table 4.1.15 below:

Table 4.1.15 availability of measures

RESPONSE	NUMBER	PERCENTAGE (%)
Yes	31	62
No	19	38
Total	**50**	**100**

Source: research data



4.2 DISCUSSION OF THE RESEARCH FINDINGS

4.2.1 Existence of internal controls

The study found that the majority of the respondents undoubtedly agreed that the institution did have in place internal controls on financial performance. Having internal controls on face value clearly indicated the presence of an accounting and financial management system which no doubt helped the enhancement of financial performance. This agrees with Mawanda (2008) who

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states that the institution that has enforcement of proper internal control system will always lead to improved financial performance.

4.2.2 Commitment of management

As can be seen from table 4.1.11 respondents arguably acknowledged that management was committed to the operation of internal control systems in the institution. This nicely supports the assertion that control environment, especially management philosophy, plays a critical role and therefore a foundation for all other subsidiary components of internal control (Verschoor, 1999). In fact, John (2011) supports management's commitment to the smooth operation of the internal control system. Therefore internal control systems not only contribute to managerial effectiveness but are also cardinal duties of the corporate directions. In this vein when management shows commitment to the operations of the internal control system is surely a fulfillment of managerial obligation (Verschoor, 1999).

4.2.3 Monitoring of implementation

Respondents, as can be noticed from table 4.1.14, showed that they did understand how management monitored the implementation of the internal controls. The majority (60%) expressed negativity in terms of how management monitored the implementation of internal controls. This showed a failure on the part of management to provide adequate oversight role which could result into weak internal control system. De Beelde (2006) particularly emphasizes the 'tone at the top' the level of risk and control awareness as being cardinal to the success of internal control systems specially as they relate to financial performance.

4.2.4 Measures

The study revealed that respondents agreed that corrective actions were usually taken by management to remedy the flaws in the operations of financial management system. Although some respondents (38%) expressed skepticism regarding this variable, the majority (62%) gave an affirmative answer when asked this question on measures that management did take to remedy the flaws. This could imply that measures taken were sometimes not made known to every employee which could also mean that they were informally done. Consequently, management's response to correct the flaws in the system was a clear indication that it was committed to the operation of the internal control system as already alluded to. This in a nutshell implied strategic control thus covering the entire institute (Johnson and Meosel, (2010)

4.2.5 Strategies and specific activities

The study revealed that respondents seemed not to agree that strategies for implementing internal controls were established and effective in the institute as can be seen in table 4.10.1. They asserted that while internal controls were in existence and adequate (table 4.8.1); there were no strategies to implement them. They further said that no specific activities necessary to implement these controls were in place and as such nothing in this regard was communicated to staff in general terms (see table 4.1.9)

4.2.6 Staff affected by internal controls

The study revealed that internal controls in the institution affected staff at all levels. Although respondents showed varying views regarding who were affected by internal controls, the majority seemed to agree with the view that the internal controls in the institute affected all staff regardless of the positions they occupied (See table 4.1.7).

4.2.7 Description of policies of credit management and controls

The study found out that the institution did have policies regarding how credit was managed and controlled. Respondents seemed to disagree on how adequate these policies were. This was so because while some respondents said that these policies were adequate, the majority of the respondents accounting for 78% said that the policies were not adequate at all (See table 4.1.12).

The implication of this was that there was lack of efficiency and effectiveness in as far as the collection of fees from students was concerned. Surely if the institution lacked adequate policies

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especially in the area of collection of fees, accountability would also be lacking for some students might learn the whole term without paying in full, as was revealed in this study.

The study further revealed that once students paid the initial payment and allowed to start learning there were no follow-up mechanisms by the accounts office. The implication of this was that colossal amounts of money remained uncollected at the end of the day thereby negatively impacting on financial performance (cash flow) of the institution. This seems to agree with Ray and Pany (2001)'s belief that knowledge of internal control systems helps in improving financial performance.

According to Feng, Li and Mackey (2009), the quality of an organization's internal system has significant impact on the accuracy of management guidance, likewise firms that disclose ineffective internal control system have larger tendency of experiencing management errors in their operation than those firms that report effective internal control system. Schneider and Church (2008) in their study stated that effective internal control systems are fundamental drivers toward earnings quality.

4.3 Internal controls on financial performance

Respondents identified the following specific internal control procedures as being in existence at Kabwe Institute of Technology.

4.3.1 Signatories

The study revealed that the institute had several accounts with a number of banks. Therefore for money to be withdrawn from such bank accounts specific officers were designated as signatories. This meant that money could only be withdrawn after all the signatories had appended their signatures. This worked as a safeguard to prevent unauthorized withdrawals from occurring. It was revealed that no account had one signatory.

4.3.2 Issuance of receipts

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Respondents seemed to agree that the accounts office issued cash receipts once payment was made. This definitely served as evidence of payment so as to avoid erroneous claims being made for payment in future. The study further revealed that these receipts were also used by the Heads of Department (HODs) to issue admission slips to students which were later availed to course lecturers for a student to gain entry into the classroom for lessons. This implied that only students that had made some payment of some sort (full or part payment) were allowed in classrooms to learn.

4.3.3 Collection of money through bank

It was revealed from the study that the institute did not accept payment made in cash. This therefore meant that all payments were made through the bank. All students were given the institute's bank account number where all the payments were made. This seemed to work well for it avoided handling of cash by accounts staff which was highly risky. Students or prospective clients on the other hand needed not travel to the institute to make payment but could do so anywhere within Zambia where such banking facilities existed. However students were required to present the deposit slip upon reaching the institute to facilitate the onward insurance of the cash receipt. This measure ensured that all cash and cheques received are accounted for and recorded accurately (ACCA, 2010).

4.3.4 Student registration

The study revealed that only students who met detailed criteria were registered by the institute. The study additionally found out that the registration process of students was handled by staff at different levels such as student affairs staff, accounts staff, stores staff, Head of department as well as course lecturers. The implication of this was that only bona fide students were registered.

4.3.5 Approvals

The study revealed that the institute had numerous approval procedures which served as internal controls. It was revealed that approvals were needed for all requisitions, be it at department or institution level. Further, before any payment was made payment vouchers had to be raised and

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approved by the head of the institution (Principal). It was only after the aforesaid approvals were satisfied that the payment would be allowed as and when funds were available, the study found out. Interestingly it was discovered that all payments were only made by the use of cheques. As already alluded to under withdraws, for these cheques approved signatories needed to sign them. Short of this meant no bank would honor such a cheque hence no payment. The implication of this was that no unilateral payment could be made in the institution thereby preventing the illegitimate outflows of cash from occurring. This agrees with Millichamp (2002) who asserts that this prevents unauthorized payments being made from bank accounts.

4.3.6 Internal auditing

The study found out that as an internal control procedure, internal audit was conducted in the institution at regular intervals. This meant that the work done by the accounts staff was assessed by independent staff to ensure accuracy and compliance of the records. It was revealed by the study that this acted as a deterrent for staff were aware that any departures from policies and procedures would be discovered by the internal auditing system.

4.3.7 Reconciliations

It was revealed by the study that the accounts office at the institute maintained cash books and petty cash books. The cash book was used to record the payments and receipts made at the bank as earlier mentioned. The study further revealed payments made by cheque and credit transfer which were subjected to special procedures that included maintenance of a separate bank account with regulation reconciliations. Millichamp (2002) agrees that this prevents misappropriation of bank balances as well as ensuring that all transactions are correctly recorded in the books of account. The implication of this was that at any given time the balance as per bank statement would always agree with the cash book balance (Bank column).

4.4 LINK BETWEEN INTERNAL CONTROLS AND FINANCIAL PERFORMANCE

The study revealed that internal controls had a positive bearing on the performance of the institution financially. The following were the points respondents that participated in the study

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gave when they were asked to explain the existing link between internal controls and financial performance.

4.4.1 Accountability

The majority of the respondents said that internal controls were very essential if an institution was to achieve optimum financial performance. They asserted that where internal controls were inadequate or lacking there was a very high likelihood of poor financial performance. So, internal controls such as approvals and internal audits would ensure that finances were accounted for. This agrees with Weber (1998) who says that internal controls that have been confirmed to have a relationship with financial performance include: organization, segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement and budgeting.

Further the research revealed that where internal controls were lacking financial deficits would result. They said that the institution was facing a lot of financial challenges such as failure to pay gratuity to staff, failure to pay salaries on time, failure to meet statutory obligation to National Pension Scheme Authority (NAPSA) and Zambia Revenue Authority (ZRA) due to inadequate internal controls (see table 4.14.1). The respondents further said that there were a lot of loopholes which resulted into loss of revenue such as failure to chase or make follow-ups on some students who made part-payment as earlier alluded to. This agrees with Colbert and Bowen (1996) who argues that ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities and other actions personnel take in performing their duties that assess the quality of internal control system performance. In this vein, it can be argued that the policies, which are part of internal controls that the institution put in place regarding how financial resources are mobilized, managed and controlled, would ultimately result into positive financial performance.

4.4.2 Initiation of purchases

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The study revealed that the way purchases were initiated played a major role in the institution. It was further revealed that initiation of purchases approved by Heads of Department, Vice Principal and Principal respectively prevented frivolous demands hence reduced pressure on finances. Therefore it could be argued that failure to have in place this particular internal control measure would result into failure to monitor how cash flows in and out of the institution. This agrees with Roll (1986) who asserts that poor or low financial performance is related to strategic errors made in the implementation or non-implementation of specific internal controls. It could therefore be argued that internal controls that the institution operated effectively and efficiently would assist to monitor cash flows thereby enhancing financial performance.

4.5 Summary of findings

The study revealed that internal controls did exist at Kabwe Institute of Technology but that strategies to implement these controls as well as specific activities for their smooth operation were not there and therefore were not communicated to staff. On management's commitment to the controls, the study revealed that management was committed to the implementation of the internal controls. On the effectiveness of the internal control systems, the study found out that the efficient internal controls positively influence financial performance

The study also established that there was a clear link between internal controls and financial performance. This linkage was examined through the facets of internal controls and the financial performance picked specifically for this study. These facets of internal controls which included control environment, control activities and monitoring such as approvals, student registration where linked to the facets of financial performance such as liquidity and accountability (reconciliations and signatories).

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CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This part of the study tries to answer the research questions of the study based on the findings.

The chapter thereafter draws conclusions from the findings highlighted in chapter four (4) and makes recommendations emanating from the study findings

5.2 Research questions and answers

1. What internal controls are in place over financial Performance at Kabwe Institute of Technology?

   The study indicated that the institution has internal controls over financial performance. The internal controls that were identified in the study were:

   - *Receipts were issued whenever payment was made. This provided proof or evidence of payment made and received.*
   - *Signatories were in place to authorize withdrawal of money from the institution's bank account.*
   - *Any payments to the institution were deposited into the institution's bank account, no cash payments were allowed so as to minimize the risks that go with handling of cash, such as theft just to mention but a few.*
   - *Students' registration follows a well defined set of criteria to ensure that only students that present an admission slip generated by the head of department is allowed in the classroom. This prevents admission of illegal and unregistered students from gaining entry into classrooms which may result into loss of revenue.*
   - *Division of labor was also identified as one of the internal controls. This was significant because it meant that no one individual could process a transaction up to its final stage alone. For example payment vouchers were prepared by accounts office approved by vice principal and finally the principal.*
   - *All payments were made by cheque. The result of this was that all payments needed to be cleared by the bank system to avoid unauthorized payments.*
   - *Internal auditing procedures were in place to ensure independent checks on work done by accounts staff for example, so as to monitor compliance and reliability.*
   - *Reconciliations were regularly done. This provided accuracy in terms of information contained in the cash book of the institution and the bank accounts details.*

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2. What is the link between internal controls and financial performance?

   The study revealed that there exited a clear link between internal controls and financial performance. It was revealed from the study that where there were no internal controls there would be poor financial performance. This was so due to the fact that accountability would be lacking, everyone would be free to do what pleased them for procedures and policies would be nonexistent or if existing, loosely complied with. The end result would be loss of finances as a result of misapplication or misallocation and in the final analysis salaries and other payments could suffer in terms of delayed payments. Therefore policies and procedures (internal controls) ensure positive financial performance.

   It was further revealed that when internal controls such as approval procedures were followed to the latter they reduced unnecessary demands thereby minimizing pressure on finances. Finally the study indicated that internal controls helped in the monitoring of cash flows in the institution thereby improving the outlook of financial performance.

3. Are the internal controls that are in place effective and efficient?

   The study revealed that internal controls were not effective and efficient. This was so owing to the fact that implementation was lacking for the institution lacked a vigorous mechanism of making follow- ups on students who make part payments among others.

5.3 Conclusion

The findings of this study leave one with no option but to deduce that the institution has an internal control system which is operational. The internal controls in place included clear

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separation of roles (division of labor), the requirement for signatories before withdrawals are made, approvals, reconciliations, internal auditing, collection of money through banks and payments by check. Nevertheless, there appears to be challenges in the area of implementation of internal controls specifically considering that specific activities necessary to implement internal controls were not communicated to staff as revealed by the study. These challenges were compounded by nonexistent of strategies for implementing the controls as the study further revealed.

Finally the study concludes that there is a clear link between internal control system (control environment, control activities and monitoring activities) with financial performance (liquidity and accountability). Consequently, where these controls are missing financial resources will not be properly accounted for, cash flows will negatively be affected and as such salaries, gratuity and other financial obligations will not be honored on time

5.4 Recommendations

Based on the findings, the following recommendations were made:

- Internal control environment should be enhanced to further improve financial performance of the institution.
- There should be deliberate effort to educate staff in general on the importance of internal control systems
- Information and communication technology systems should be developed or outsourced which would help in the generation or creation of accounts for each student. This would help in identifying student who owed the institution money as a result follow-ups could easily be instituted on defaulters.
- Specific strategies for the proper implementation of internal controls should be formulated and communicated to staff at all levels.

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- The institution should establish and manage clear and adequate policies and procedures in an effort to strengthen internal controls.
- Regular reviews should be conducted by management on the functionality of internal controls so as to enhance efficiency and effectiveness in their operations.
- Vigorous credit management system should be introduced to ensure that credit management and control became the concern of all staff at all levels rather than leaving it entirely to accounts staff.

5.5 Possible areas of future research

The research considered the link between internal controls and financial performance in Technical colleges in Zambia with special focus on Kabwe Institute of Technology. Further research could be conducted on the impact of Information and communication Technology (ICT) on internal controls in Technical Colleges in Zambia.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

INFORMATION AND COMMUNICATION UNIVERSITY (ICU)

SCHOOL OF BUSINESS

QUESTIONNAIRE

LINK BETWEEN INTERNAL CONTROLS AND FINANCIAL PERFORMANCE IN TECHNICAL COLLEGES: A CASE OF KABWE INSTITUTE OF TECHNOLOGY.

ATTENTION:

Dear Respondent

I am a student pursuing a Master of Business Administration in Finance at the Information and Communications University.

You have been selected at random using probability techniques to participate in this research project. I shall therefore appreciate if you participate fully.

This research project is intended to investigate the link between internal controls and financial performance in institutions and colleges under Technical Education, Vocational and Entrepreneurship Training Management Boards in Zambia. The information collected using this questionnaire will solely be used for academic purposes.

For this reason, you are requested to give accurate and complete information so as to facilitate the quality of the project report that will eventually be compiled out of this exercise. Further, be rest assured that the information gathered will be considered as highly confidential.

INTRUCTIONS

Please respond to the following questions as truthfully as possible. Where there are options provided, select the appropriate response by putting a **tick [ ]** in the box of your choice.

SECTION A **BACKGROUND CHARACTERISTICS OF THE RESPONDENTS**			
QUESTION NO.	**QUESTION**	**RESPONSE**	**OFFICIAL USE**
Q1	What is your name?	………………………….(Optional)	

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Q2	What is your gender?	1. Male……………….. 2. Female……………	[ ] [ ]
Q3	What position do you currently hold in the organization that you work for?	1. Finance and accounts staff…… 2. Departmental head……………… 3. Lecturer ………… 4. Administrative staff………… 5. Other (specify)…………	[ ] [ ] [ ] [ ] [ ]
Q4	Which of these categories describe your age?	1. 20 – 30 years 2. 31 -40 years 3. 41 -50 years 4. Above 50 years	[ ] [ ] [ ] [ ]
Q5	What is your professional qualification?	1. Certificate………… 2. Diploma…………… 3. First Degree…………… 4. Other………………	[ ] [ ] [ ] [
Q6	What is your field of study	……………………………………	

SECTION B: TO ANALYSE THE EXISTING INTERNAL CONTROLS ON FINANCIAL PERFORMANCE

Q7	Does your organization have any internal controls on financial performance	1. Yes 2. No	[ ] [ ]
Q8	Itemize the existing internal controls on financial performance of your organization	…………………………………… ……………………………........................ .... …………………………………… …………………………………… ……………………………………	

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		…………………… …………………………………… …………………………………… …………………………………… ……………………	
Q9	Who are involved in the setting up of internal controls on financial performance in your organization?	1. Management……………… ……. 2. Departmental heads…………… 3. Finance and accounts staff………. 4. All employees………………… ……….	[ ] [ ] [ ] [ ]
Q10	Who are affected by the internal controls set	1. Finance and accounts staff……….. 2. All staff……………………… ……………… 3. Others…………………… ………………….	[ ] [ ] [ ]
Q11	Have overall strategies for implementing internal controls been established	1. Yes…………………… 2. No……………………..	[ ] [ ]
Q12	Have all specific activities necessary to implement the internal controls been identified and communicated to the responsible staff?	1. Yes 2. No	[ ] [ ]

SECTION C: TO EXAMINE THE LINK BETWEEN INTERNAL CONTROLS AND FINANCIAL PERFORMANCE

Q13	Is there a link between internal controls and financial performance at your institution?	1. Yes 2. No	[ ] [ ]

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Q 14	At what level do you think the variables above correlate?	1. Lower level 2. Middle level 3. Upper level 4. None of the above	[ ] [ ] [ ] [ ]
Q15	In your opinion, give a brief explanation as regards the existing link between internal controls and financial performance	……………………………………………… ……… ……………………………………………… ……… ……………………………………………… ……… ……………………………………………… ……… ……………………………………………… ………	

SECTION D: TO EXAMINE THE EFFECTIVESS AND EFFICIENCY OF THE EXISTING INTERNAL CONTROLS ON THE FINANCIAL PERFORMANCE

Q16	How do you rate the organization structure at Kabwe Institute of Technology?	1. Clear 2. Not clear	[ ] [ ]
Q17	Who is responsible for the preparation of the organization structure	1. Principal…………………………………… 2. Training manager………………… 3. Departmental heads…………… 4. All staff…………………………………… 5. Other……………………………………..	[ ] [ ] [ ] [ ] [ ]
Q18	Is management at your institute committed to the operation of the systems of internal control	1. Yes 2. No	[ ] [ ]
Q19	How do you describe the policies of credit management and control at your institution?	1. Adequate 2. Not adequate	[ ] [ ]

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Q20	Do you consider the policies to ensure effective and efficient collection and follow-up of fees due from students adequate?	1. Yes 2. No	[ ] [ ]
Q21	Does management closely monitor the implementation of internal controls in your organization?	1. Yes 2. No	[ ] [ ]
Q22	Are there deliberate measures taken to remedy flaws in the operations of finance management system	1. Yes 2. No	[ ] [ ]

THANK YOU VERY MUCH

APPENDIX 2. **LETTER**

INFORMATION AND COMMUNICATIONS UNIVERSITY

OFFICE OF THE REGISTRAR

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Cell:+260-979303567/0979-718215 Email: admin@icuzambia.net /academic@icuzambia.net

16th March, 2017

The Principal,

Kabwe Institute of Technology

P.O Box 80430

KABWE

RE: PHIRI JAMES SIN: 1410393646

I hereby write to introduce the above named student to your good office. He is a full time student of the Information and Communications University, and currently undertaking a research project under the theme “Link between internal controls and financial performance in ttechnical colleges: a case of Kabwe Institute of Technology" for His Masters’ thesis. Therefore, this serves to ascertain that; as part of the academic requirement for the fulfillment of His Masters’ programme, He will be involved in data collection within your institution for the above stated project. The data collected and the subsequent research results are solely used for academic purposes.

I take this opportunity to thank you for your cooperation.

Yours faithfully,

Dr. R. Silumbe Programmes Coordinator

Cc; Vice Chancellor
Cc: Dean School of Education
Cc; Dean of students