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INFLUENCE OF MONITORING AND EVALUATION ON THE FINANCIAL PERFORMANCE OF STATE CORPORATIONS IN KENYA

Cecilia Ndunge Waweru
Meru University of Science & Technology

Abstract

Monitoring denotes the practice of measuring the quality of the internal control structure over time in order to evaluate the quality and the efficacy of the system's performance over time. By monitoring, the organization gets guarantee that the findings of audits and other evaluations are promptly determined. This facilitates an organization to decide whether or not its policies and procedures designed and implemented by management are being carried out efficiently by employees. The study used descriptive research with a target population comprised of the 187 public organizations in Kenya. Simple random sampling method was used to sample 56 per cent respondents in the selected corporations. The study used a questionnaire to collect data from the respondents and secondary data was collected from published material, annual reports, and published data. Data collected was analyzed by the use of descriptive statistics which includes percentages, means, standard deviations and frequencies.The study found that monitoring and evaluation affect the financial performance of the state corporations to a moderate extent. It was concluded that monitoring and evaluation is essential in assessing the quality of performance. The study recommended that M&E plans should be developed with all stakeholders so as to enhance ownership and compliance and improve accountability and ensure proper resource utilization in State Corporation.

***Keywords*: Monitoring, Evaluation, Financial Performance**

Introduction

Upholding effective internal control systems in organizations has been insistently and vastly emphasized, owing to its potential effect on financial performance (Crawford, 2011). The internal controls are applied to ensure that there are conducted procedures in the institutions. According to Posthuma (2013) internal control systems have been so significant to public organization especially in the aspect of assurance of the reliability and accuracy of the financial reports. Similarly, according to Verdina (2011) internal control systems are used by public organizations as a basis for establishing a solid control framework for these entities, and by the controllers of the public sector as a means for assessing the internal control system. Despite the importance of internal control systems, it is not very clear on how they affect financial performance of state corporations. According to Muraleetharan, 2013, in a study on control activities and performance of organizations, a positive relationship between control activities and performance was recognized. In another study conducted in Nigeria by Ejoh and Ejom (2014), to establish the relationship between internal control systems and financial performance in tertiary institutions, it revealed no substantial relationship between internal control activities and financial performance. Njui (2012) examined the efficiency of internal control and audit in upholding good governance in the public sector in Kenya and determined that internal control has the highest effect on corporate governance inside Kenya government ministries followed by risk management while compliance and consulting had the least effect. Makori, Nyagol and Odongo (2016) examined the influence of internal control systems on fraud risk management among commercial banks in Kisii Town, Kenya and established that ICS influence 67.7% of fraud risk management; control environment positively and significantly influences fraud risk management ($\beta = 0.391$; $p < 0.05$) and risk assessment positively and significantly influences fraud risk management ($\beta = 0.401$; $p < 0.05$).

Monopolistic production, highly indigenized management and appointments of a large number of top managers based on political considerations have been the characteristics of majority state corporations in Kenya (Ngari, 2017). Regardless of the government reforms in Kenya financial scandal, these characteristics have caused many of the state corporations in Kenya to struggle to redeem their bases and collapses of this state entities have continued unabated (Onyango, 2014). According to the R.O.K (2016) out of 130 reports inspected by the auditor general on corporations only 23 achieved a clean bill of health and hence the concern. The effect of this is little economic growth, insecurity, lack of investments and poor service delivery leading to underdevelopment (R.O.K, 2016). From the foregoing, studies have been carried out to determine the impact of internal control systems on financial performance of state corporations in Kenya but due to various aspects of internal control and financial performance a research gap still exists. This study therefore was a modest attempt to fill the existing gap by conducting a study on the effect of internal control systems on financial performance of state corporations in Kenya.

Study objective

To assess influence of monitoring and evaluation on the financial performance of state corporations in Kenya.

Scope of the Study

The objective of this study was to investigate the effect of internal control systems on financial performance of state corporations in Kenya. The study was conducted among parastatals in Kenya and focused on selected parastatals with headquarters in Nairobi Kenya (R.O.K, 2016). The target personnel were the accountants of the respective parastatals with collection and analysis of data done between July and August 2018.

LITERATURE REVIEW

Reliability Theory

Reliability theory offered by Gavrilov&Gavrilova (2001) mainly defines the likelihood of a system affecting its anticipated purpose during a period of time. It was initially an instrument used to aid the nineteenth century maritime insurance and life insurance companies in calculating lucrative rates to bill their customers (Gavrilov&Gavrilova, 2001). In accordance to the reliability theory, an internal control system contains of elements that are interconnected and for each element, there requires to be a distinct degree of success. Therefore, the quality of an element is contingent on whether the element is successful or not successful. The dependability of an element is described as the possibility of the element being established in the 'success' state. Moreover, the dependability of the whole internal control system is a dual amalgamation with two possible values, success and failure. This study considered the part of the reliability theory which communicates the internal control system element reliabilities.

The controllability of reliability theory to the assessment and purpose of internal control systems are present in the professional literature but no practices have been stated that outline upon the much power of the theory of level of reliability (Kinney, 2000).

Monitoring and Evaluation and Financial Performance

Monitoring can be achieved by regularly supervising and managing activities in a firm. This may include monitoring of customer complaints, reactions, and periodic audit reports prepared by internal auditors. Hayali. (2011) pointed out that internal auditors can assess and appraise internal control structures and the effectiveness with which the several components are performing their assigned duties.

According to Muraleetharan (2011), at the end of June 2006, there was over $7 trillion of corporate, state, and local government, asset backed structured finance bonds outstanding with much of it rated by only a (literal) handful of bond rating companies that establish creditworthiness of corporate entities and of governmental units. Linking bond ratings to performance is important particularly in a governmental setting where credit ratings remain a key feature of municipal debt management, and debt is the key source of capital. In this study, the researchers examined whether budgetary control had relationship with performance. The picked a sample of large U.S. cities over the 2003-04 timeframe. The study found that effective level of budgetary control had significant and positive impact on bond rating.

Etengu and Nasieku (2015) examined how the firm has employed an operational budget as a management tool. It set out to determine how operational budgeting practice is actually done, the basis of budget formulation and to what extent the budgets are used as a management and control tool. The study concentrated on companies offering mortgage financing in Kenya. The study revealed that budgets are normally prepared on an annual basis. It was found that all the major Kenyan mortgage financing institutions have an operational budgeting process which they considered extremely important since it is outlined in the organization's objectives, targets, means of achievements, cost of achievement and responsibilities.

Research Methodology

This research design adopted descriptive research chosen because the study aimed at collecting information from respondents. The target respondents were drawn from the public organizations in Kenya. The target population comprised of the 187 public organizations in Kenya. Simple random sampling method was used to sample 56 per cent respondents in the selected corporations. The study used a questionnaire to collect data from the respondents and secondary data was collected from published material, annual reports, and published data. Data collected was analyzed by the use of descriptive statistics which includes percentages, means, standard deviations and frequencies.

Data Analysis, Presentation, and Interpretation

The response rate achieved for the questionnaire was 86.0%. This response rate was a representative and conforms to Mugenda and Mugenda (2012) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.To assess influence of monitoring and evaluation on the financial performance of state corporations in Kenya, the respondents were asked to indicate the extent to which monitoring and evaluation influenced financial performance of their organizations. Accordingly, 56.8% of the respondents indicated that monitoring and evaluation influenced financial performance of their organizations to a moderate extent, 29.5% of the respondents indicated to a great extent, 9.1% of the respondents indicated to a little extent, while 5% of them indicated to a very great extent. The results imply that in general monitoring and evaluation influenced to a moderate extent the financial performance of the state corporations in Kenya.

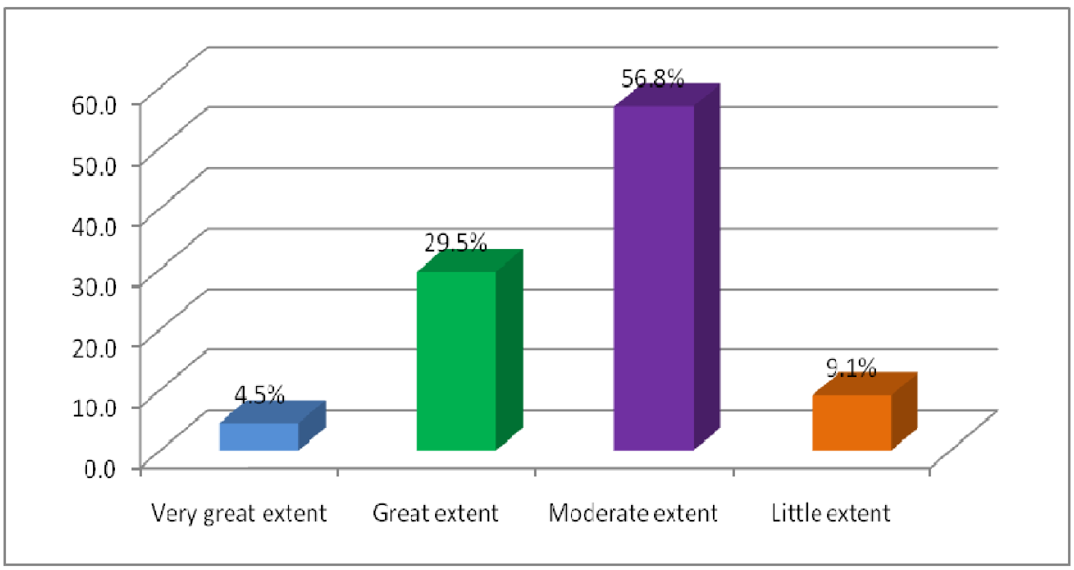

Figure 4.4: Monitoring and evaluation on financial performance

The study further sought to ascertain the extent to which various aspects of monitoring and evaluation influenced the financial performance of state corporations in Kenya. From the raw data, the results were averaged using weighted mean scores and an output obtained. For interpretation, the weighted means were rounded off to nearest whole number as presented in Table 4.10.

Table 4.1: Aspects of Monitoring and Evaluation

Aspects of monitoring & evaluation	Not all	Little Extent	Moderate Extent	Great Extent	Very great Extent	Mean	Std. dev.
Periodical financial reports	0	5.2	43.8	46.9	4.2	3.5000	0.6649
Reporting standards	0	21.2	21.2	34.6	23.1	3.5962	1.0711
Compliance with regulations	0	17.6	26.9	47.2	8.3	3.4630	0.8799

According to Table 4.10, reporting standards and periodical financial reports influenced financial performance of organizations to great extents as shown by mean scores of 3.5962 and 3.5000 respectively. On the other hand, compliance with regulationsto a moderate extent as shown by a mean score of 3.4630. These results imply that monitoring is a function of internal control of state corporations. This was demonstrated by the results, which showed that management is keen in assigning responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports and that monitoring has helped in assessing the quality of performance of the organization over time.

The study further sought to determine the respondents' level of agreement with various statements regarding monitoring and evaluation. The results are as depicted in Table 4.11.

Table 4.2: Statements on Monitoring & Evaluation

Statements on monitoring and evaluation	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. dev.
Monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls	0.0	29.0	7.0	41.0	23.0	3.5528	1.1843
Monitoring helps in ensuring that all employees are compliant with the internal policies of the business	0.0	22.9	29.2	33.3	14.6	3.3330	1.4923
Monitoring determines whether internal control is adequately designed, properly	0.0	4.1	29.2	44.8	21.9	3.5940	0.6481

executed and effective							
Monitoring provides assurance that the findings of audits and other reviews are promptly determined	0.0	10.4	44.8	33.3	11.5	3.4583	0.8325
M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run.	0.0	6.3	33.3	51.0	9.4	3.6354	0.7415
Financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure.	0.0	17.6	26.9	47.2	8.3	3.4630	0.8799
Financial reporting							

From the study, most of the respondents agreed that M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run as shown by a mean score of 3.6354, monitoring determines whether internal control is adequately designed, properly executed and effective as shown by a mean score of 3.5940 and monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls as shown by a mean score of 3.5528. The respondents however neither agreed nor disagreed with that financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure as shown by a mean score of 3.4630, monitoring provides assurance that the findings of audits and other reviews are promptly determined as shown by a mean score of 3.4583 and that monitoring helps in ensuring that all employees are compliant with the internal policies of the business as shown by a mean score of 3.3330. From these results, monitoring embraces how frequent the quality and effectiveness of internal controls are assessed and reviewed over time. Accordingly monitoring has helped in assessing the quality of performance, the corporations continuously monitor the accountability through a set of financial reporting indicators and there is monitoring of employees' compliance with policies and directives through annual assessments and internal human audits.

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The study found that monitoring and evaluation affect the financial performance of the state corporations to a moderate extent. From the study, reporting standards and periodical financial reports affect the financial performance of state corporations in Kenya to great extents, while compliance with regulations affects the financial performance of state corporations in Kenya to a moderate extent. M&E facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements to influence performance in the long run, monitoring determines whether internal control is adequately designed, properly executed and effective, monitoring is accomplished by ongoing monitoring activities and by separate evaluations of intern controls, financial statements in financial reporting enhance recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure, monitoring provides assurance that the findings of audits and other reviews are promptly determined and monitoring helps in ensuring that all employees are compliant with the internal policies of the business. It was concluded that monitoring evaluation has helped in assessing the quality of performance, the corporations continuously monitor the accountability through a set of financial reporting indicators and there is monitoring of employees' compliance with policies and directives through annual assessments and internal human audits. The study further recommends that the state corporations should guarantee there is a monitoring and evaluation system in place to determine compliance with internal controls and where instances of noncompliance are reported to the relevant authorities. Further recommendation is that M&E plans should be developed with all stakeholders so as to enhance ownership and compliance. The planning of the state corporations should be done in a holistic manner from a bottom-up approach where everyone should be brought on board. This would improve accountability, ensure proper resource utilization, and ensure that state corporation employees and other stakeholders are working towards common goals.

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