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Investigating the link between internal controls and financial performance in technical colleges in Zambia: A case of Kabwe institute of technology

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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 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 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 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.

Keywords: financial, technical, technology, vocational, environment, technical education

Introduction and Background

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) [6].

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) [2].

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 financial performance since it does not contribute to return on equity (Refuse, 1996) [10]. 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 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

Statement of the problem

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) [11]. 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) [7].

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.

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

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.

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.

Scope of the study

The study did investigate the link between internal controls and financial performance in institutions under TEVET in Zambia.

Literature Review

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) [15].

Global Perspective

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) [14]. 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) [5].

A study carried out by Palfi and Muresan (2009) [9] 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 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) [1] 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) [12].

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) [9] 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.

A study conducted by (Simiyu, 2011) [12] 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.

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) [8] 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.
- 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.
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).

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.

Research Methodology

Research Design

The descriptive design was used in this study. Osuala (2010) asserts that using descriptive design minimizes errors and biasness.

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.

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.

Sampling Technique

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

Instruments for Data Collection

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

Questionnaires

The researcher did design a questionnaire that 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.

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.

Procedure for Data Collection

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

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.

Presentation of Research Findings

Description of Distribution of Questionnaires

The tables below shows that 6 questionnaires representing 12% were given to management staff, 25 representing 50% were 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.

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

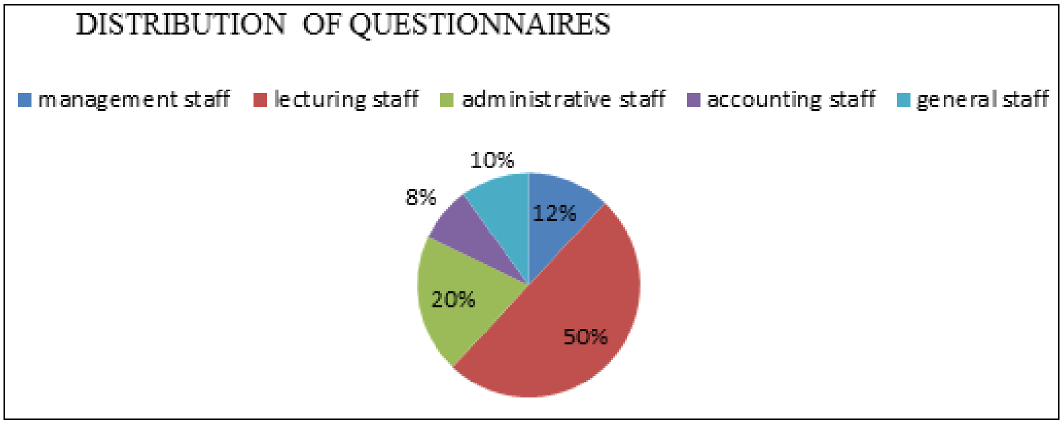


Fig 1

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. The table below gives details of the respondents' responses.

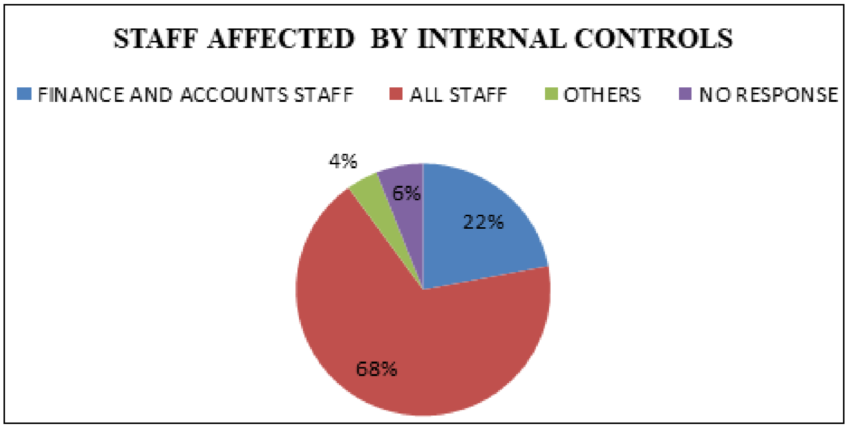
Table 1: Existence of internal controls.

Response	Number	Percentage (%)
Yes	41	82
No	9	18
Total	50	100

***Source*:** Research Data

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 the table below:



***Source*:** Research Data

Fig 2

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.

Discussion of research findings

Link between internal controls and financial performance

The study revealed that internal controls had a bearing on the performance of the institution financially. The following were the points respondents that participated in the study gave when they were asked to explain the existing link between internal controls and financial performance.

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 well accounted for. This agrees with Weber (1998) [15] 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 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 were part of internal controls that the institution put in place regarding how financial resources were mobilized, managed and controlled, would ultimately result into positive financial performance.

Initiation of purchases

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.

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 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.

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
- Specific strategies for the proper implementation of internal controls should be formulated and communicated to staff at all levels.
- 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.

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