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Effect of Control Environment on the Financial Performance of Higher Learning Public Institutions in Zanzibar

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Abstract: *The main purpose of the study aimed to examine the effect of control environment on financial performance in public institutions of higher learning of Zanzibar. The study used a descriptive research design. This study took a sample study approach with its target population being the different categories of staff in Administration levels and account/finance departments of Public Institutions of Higher Learning in Zanzibar. It took on the sample of 62 employees. Primary data was collected from sample population using open and close ended questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. The study realized that the control environment as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Zanzibar. More than 60 percent of the total respondents have agreed and strongly agreed that control environment indicators of internal control systems can influence the higher learning institutional financial performance. The study recommends that there is a need for the management to ensure that they continuously review their control environment and ensure that they are operational, review their sources of revenue, tools of collection and strengthen their system of collections*.

I. INTRODUCTION

The survival of any organization depends on the effective and efficient utilization of resources (financial and non-financial) at the disposal of the organization. Hence, to optimize the utilization of resources entrusted to all employees in an organization, various forms of control are put in place by the management of the organization, in which internal control being one among them. Internal control as such becomes an instrument and means of risk control, which helps the enterprise or organisation to achieve its goals and to perform its tasks. Only an effective internal control in the enterprise or organisation can help objectively assessing the potential development and tendencies of enterprise or organisation performance and thus to detect and eliminate the threats and risks in due time as well as to maintain a particular fixed level of risk and to provide for its reasonable security (Lakis and Giriūnas, 2012).

Historically, an internal control system is defined as a plan and other coordinated means and ways by the enterprise or organisation to keep safe its assets, check the covertness and reliability of data, increase its effectiveness and to ensure the settled management politics. However, the presented definition of control concept has been constantly improved, and nowadays there is quite an extensive set of conceptions that indicates the system of internal control as one of the means of leadership to ensure the safety of enterprise and organisation assets and its regular development (Lakis and Giriūnas, 2012).

Thus, any attempt to develop an effective system of internal control permits management to deal with rapidly changing economic and competitive environments, 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 (Murwis, 2017). The internal control systems can help an organization to achieve its desired performance and profitability targets, better service delivery and also prevent loss of resources. It can help to obtain a better performance in revenue collection. Internal control systems help an organization to achieve its objectives and also avoid pitfalls (Brown, 1996), which is the key motivation of the researcher to examine whether an internal control system can help the higher learning institutions to pursue its goals and hence sustainability.

Sound financial internal control systems help an organization to prevent and detect frauds, errors and minimize wastage. It strengthens custody of assets; and provides assurance to the management on the dependability of accounting data; it also eliminates unnecessary suspicion and maintenance of adequate and reliable accounting records. Realizing the importance of the internal control systems all of the higher learning institutions in Zanzibar installed it to ensure the smooth running of the institutions and hence fulfilling their goals and missions.

II. PROBLEM OF THE PAPER

The role of internal control systems on the financial performance of an institution must be viewed as very vital in every organization since it prevents and detects theft. The internal control systems are installed to ensure the safety of all assets, to maintain a strategic distance from misuse or mismanagement of the company's asset and to detect and protect theft. Even though the internal control systems have been in existence for many years in most organizations, the problem of financial scandals, have continued to be on the rise.

Examples of financial scandals in various organizations include; financial irregularities within the departments, collusion among senior or highly-trusted employees, and breaches of control. Earlier researches have looked on the involvement of internal control systems on the financial performance example study done by Simiyu (2011) on the effectiveness of internal control system in higher institutions of learning in Kenya evidently indicate that institutions of higher learning face quite a number of encounters in internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still inadequate, frauds and misappropriation of institutional resources. However, studies that have examined the impact of internal control systems of financial performance of numerous institutions but in the case of Tanzania are scant as compared to other developing countries. It is, for this reason, this research will sight to explore the effects of internal controls on financial performance of public institutions of higher learning in Zanzibar, Tanzania.

III. THEORETICAL LITERATURE REVIEW

A theoretical framework consists of concepts, together with their definitions, and existing theory/theories that are used for a particular study (Khan, 2010). In this study, two theories have been used to clarify the main objective of this study.

3.1 Contingency Theory

Contingency theory is a method of studies of organizational behavior in which clarifications are given as to how dependent factors such as technology, culture and the external environment influence the design and function of organizations. The hypothesis underlying contingency theory is that no single type of organizational structure is correspondingly valid to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system. Contingency theories were established from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by (Woods, 2009). Contingency theory is used to define the relationships between the context and structure of internal control effectiveness and organizational performance, particularly reliability of financial reporting.

3.2 Agency Theory

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994). Peursem and Pumphrey (2005) considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out their monitoring role over management if it is ineffective itself? Internal auditors often are employed by senior management, but at the same time, they are also agents of the board and audit committee who trust in the internal auditors" ability to evaluate senior management's works.

IV. EMPIRICAL LITERATURE

Ejoh and Ejom (2014) aimed to establish the relationship between internal control activities and financial performance in Tertiary Institutions in Nigeria. They used the area of Cross River State College of Education, Akamkpa as their population area. Data was collected using questionnaires and interview guides as well as review of documents and articles. The method of analysis employed was survey design while the stratified sampling procedure was adopted in administering the questionnaires. The data were analyzed using simple percentages, tables, correlation coefficient and z-scores. The study revealed that all activities of the College are initiated by the top management. Regarding control activities, the study found that there is clear separation of role in the institutions' finance and account department and that superior officer in the College supervised regularly work done by their subordinate. Also, the study found that the institution financial statements are audited annually by external auditors. The result of the study further showed that there is no significant relationship between internal control activities and financial performance of Cross River State College of Education.

Kamau, (2014) examined the effect of internal controls on the financial performance of manufacturing firms in Kenya. The conclusions discovered that most manufacturing firms had a control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the firms. The finding showed that the staffs were skilled to implement the accounting and financial management systems, the security system identified and safeguarded organizational assets. The statistical outcome from the regression analysis displays that there is a positive relationship between internal control and financial performance of manufacturing firms in Kenya. The research acclaims that both internal and external auditor must be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles in order to increase their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues.

Kinyua, (2016) study a research to observe the effectiveness of internal control on financial performance of companies quoted in the Nairobi securities Exchanges. The study adopted descriptive research design using both quantitative and qualitative approach. The target population was 372 senior managers in 62 companies quoted in Nairobi Securities exchange. Multi-level random sampling of 144 senior managers in various categories returned 115 (79.8%) valid responses. Survey data was collected by use of a structured questionnaire. The data obtained was analyzed using both qualitative and quantitative analysis. Multiple regression models were used to test whether internal control environment, internal audit function, risk management, internal control activity and corporate governance have any influence on financial performance. It was found that internal control systems had a significant positive relationship with financial performance.

Ibrahim et al (2017) on their study the Impact of Internal Control Systems on Financial Performance: The Case of Health Institutions in Upper West Region of Ghana argued that the significance of upholding effective internal control system in organizations have been persistently and immensely emphasized, due to its positive effects on financial performance. Efficient internal control enables the prevention and detection of fraudulent activities in the institution. In line with this, persistent efforts by policy makers to pursue policies that would improve internal control system in the ministry of health have yielded abysmal results with regards to financial performance in health institutions in the Upper West Region of Ghana. This study sought to determine the impact of internal control variables on financial performance among five health institutions in the region using an ordered logistic regression model for a sample of fifty (50) respondents. They found a positive relationship between internal controls and financial performance. But only three of the control variables remained significant with p-values less than 5%.

Ndalahwa (2018) examines the impact of internal control challenges on financial performance in selected Local Government Authority in Arumeru district, Arusha, Tanzania. The study used the descript to-explanatory research design, where a total of 113 respondents working in those departments were involved in the study. Purposive sampling procedure was used to determine the research participants. Descriptive statistics was used to analyze the demographic characteristics of research participants. Inferential statistics was used to analyze the relationship between internal control challenges and organizational financial performance in the Local government authorities. The major challenge was unethical behavior of employees, insufficient remuneration and impunity for fraudulent behavior with local government Authority in Arumeru District. However, the participant disagreed that employee pressure, unnoticed misconduct, inadequate fraud control and prevention were among the critical challenges facing the local government authorities in Arumeru District. There was a statistically significant relationship between poor remuneration, inadequate fraud control and prevention, unnoticed misconduct, impunity and organizational financial performance. On the other hand, challenges such as the Employee pressure, Unethical Behavior, and lack of internal control measures were statistically insignificant

Urquia (2018) investigated the relationship between internal control systems and financial performance in Surigaodel Sur State University. The research was conducted using both quantitative and qualitative approaches using survey, correlation and case study as research designs. Data were collected using questionnaires and interview guide basically Deans, and Finance and Accounts staff as respondents from a population of 13 Surigaodel Sur State University staff. Data was analyzed using the Statistical Package for Social Scientists where conclusions were drawn from tables. The study found that management of the institution is committed to the control systems, actively participates in monitoring and supervision of the activities of the University, all the activities of the Institution's activities are initiated by the top level management, that the internal audit department was not so efficient, in the reporting address weaknesses in the system. It was however, revealed that all revenues and expenditures are properly classified, and that assets of the University have generally increased. The Study therefore concludes that internal control systems do function although with hiccups and that there was a significant relationship between internal control systems and financial performance in an Institution of higher learning.

V. METHODOLOGY

Under the philosophical assumption, the positivism was adopted for this study for several reasons. The main reason of being that, it fits the quantitative research design used in this study. Also, there is need to use method and philosophy that fit together the in-sights provided by quantitative research into a workable solution. Therefore, the quantitative research design is employed in this study since it allows the researcher to explore, explain a phenomenon, and interpret data statistically in a wider and easy ways.

For data collection and analysis, the questionnaire is developed based on a Likert scale because it includes question which require the respondents to indicate how much or to what extent they agree or disagree with the given statement on each construct. Following this type of rating scale, the options range is from lowest to highest responses that are 1 to 5 respectively. These options are; strongly disagree (SD) = 1, disagree (D) = 2, neutral (N) = 3, agree (A) = 4, strongly agree (SA) = 5 Stratified random sampling is used to distribute 62 questionnaires to the respondent and 60 are collected. Respondents are classified by gender, age, level of education, work experience and field of work. Cronbach's Alpha test was conducted to measure the reliability of the instrument for all items and the result is .527 indicating a satisfactory level of internal consistency. A descriptive statistical tool of analysis and inferential statistics were used for analysing the data.

VI. RESULT AND DISCUSSION

6.1 Demographic Features of the Respondents

In this study, characteristics of respondents were examined in order to identify which demographic feature is more sensitive to the given the problem of investigation at stake. Therefore, characteristics namely, age, gender, education, working experience and field of work of the 60 respondents were examined as clearly observed in Table 1:-

Table 1 Demographic Feature of the Respondents

Variable	Category	Percentage (%)
Gender	Male Female	70 30
Education	PhD Master degree First degree Certificate/Dip	53 28 12 7
Presence of well-trained staffs	Yes No	92 8

From the table 1 above summarizes the demographic information about the respondents. Expectedly, the number of male respondents is a higher compared with the number of female. The researcher was intended avoid gender sample bias in the data. This indicates that most of the workers in the higher learning public institutions in Zanzibar are economically active labor force and they can manage well their work responsibilities and taking the responsibilities to their family. An overwhelming number of the respondents (93 percent) are educated from first degree up to PhD level and the remaining 7 percent of the respondents are educated from certificate to diploma level.

Staffing is one of the most important functions of management, thus this study sought to establish the level of staffing of the accounts/finance departments among the public institutions of higher learning in Zanzibar, Tanzania. It is believed that recruiting the employees by evaluating their skills, knowledge and then offering them specific job roles accordingly everything will occur in the right manner to any organization. The results showed that 92% of the respondents agreed that public institutions of higher learning in Zanzibar have well trained staffs with respect to the accounts/finance departments while only 8% said no. These overwhelm "yes" results showed that both institutions SUZA and IPA had employed their staffs based on their ability, talent, aptitude, and specializations in respective department. This was good for the organization as it would help to achieve the pre-set goals in the proper way by the 100% contribution of manpower. It is concluded that the institutions have sufficient well trained labour force in the accounts/finance department.

6.2 Effect of control environment on financial performance in public institutions of higher learning of Zanzibar

6.2.1 Descriptive statistics analysis

The descriptive statistics of the variables in the present study are presented in the Table 2 for each variable. The tables show the total number of respondents, the mean and the standard deviation scores. It is important to remember that the 5 – point Likert scale was used in this research, where all variables used in this research employed 1 for "Strongly Disagree" and 5 for "Strongly Agree". These computations were made purposely to display the proportion of the respondents' level of the agreement with the items of the study constructs.

Table 2 Descriptive Statistics for Control Environment Variable

	N	Mean	Std. Deviation
Commitment and competence have affected institution 's overall performance	60	4.03	.551
Transfer of information has contribution on providing reliable institution report.	60	4.20	.632
Integrity and ethical values have contribute the accountability of the institution's employees	60	4.28	.613
HR policies & Procedures have affected institution 's operating cost	60	4.25	.773
Valid N (listwise)	60		

Source: Field Data 2020

Table 2 shows that, the mean value of those respondents who believe that 'commitment and competence have affected the institutions' overall performance' was 4.03, while the standard deviation was 0.551. The findings suggest that in the average, respondents strongly agreed with the item that commitment and competence had affected the institutions' overall performance.

Similarly, the mean value of those respondents who said that 'transfer of information has contribution on providing reliable institution report' was 4.20 with the standard deviation of 0.632. This findings suggests that in the average, respondents strongly agree with the fact that in order to get the reliable report in higher institution, it should have clear transparent of the reliable information

Furthermore, the mean values of those respondents who agreed that 'integrity and ethical values have contributed to the accountability of the institution's employees' and 'human resource policies and procedures have affected the institutions' operating cost' had the mean of 4.28 and 4.25 with the standard deviation of 0.613 and 0.773 respectively. These findings claim that in the average respondents strongly agree that the institution should considerably use his policies and ethics in order to achieve institutional objectives.

6.2.2 Control Environment and Financial Performance

This part was intended to establish the extent to which higher learning public institutions of Zanzibar has adopted control environment and how was it practiced. To do so, the respondents were asked to indicate: whether they agree, strong agree, not sure, disagree or strong disagree on the given statement. The following table 3 below show the result obtained from the field.

Table 3 Control Environment on Institutional Financial Performance

Statements	**Not sure**		**Agree**		**Strong agree**		**Total**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Commitment and competence have affected institution 's overall performance	8	13.3	42	70.0	10	16.7	60	100
Transfer of information has contribution on providing reliable institution report.	7	11.7	34	56.7	19	31.7	60	100
Integrity and ethical values have contribute the accountability of the institution's employees	5	8.3	33	55.0	22	36.7	60	100
HR policies & Procedures have affected institution 's operating cost	10	16.7	24	40.0	26	43.3	60	100

Source: Field Data 2020

The result from the table 3 shows that more than half of the total respondent which represent 70 per cent of the total respondents agreed that commitment and competence had affected the institutions' overall performance. On the other hand, another three elements of controls environment; Transfer of information, integrity and ethical issue and HR policies and procedures shows that majority of the respondents agree that they affect the institutions overall performance represented by 56.7%, 55% and 40% respectively. Generally, this indicates that control environment has been adopted and influenced the internal controls of the selected higher learning public institutions, as per majority's agreement. Thus, it has been agreed that control environment has a significant influence on financial performance of the institutions of higher learning.

6.2.3 Analysis of Indicators of Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term was also used as a general measure of a firm's overall financial health over a given period. It aimed to identify, how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders. This showed that monitoring of your financial performance therefore creates more certainty and confidence in making both short and long term decisions. This in turn led to a healthier business and faster growth rate. For the higher learning institutions financial performance is very important because if the institution is not liquid enough will fail to cover its operation costs and honor their obligations.

From this study, two observed variables were used to measure the financial performance of the higher learning institution in Zanzibar, these are; accountability and proper financial and administration reporting.

The results showed that 75% of the total respondents' agreed that the institutions' accountability has been practiced well for the last five years on the selected public institutions of higher learning. Higher levels of financial accountability for utilization of organizational resources will led to better financial performance of the institution. This result is supported by the study conducted by Donaldson and Davis (1989) and they found that accountability playing a major role on organization performance. More importantly, almost 77% of the total respondents concurred that for the last five years proper financial reporting practice among the public institutions of higher learning has steadily, while 23% of the respondents disagreed. Financial reporting is a true reflection of the financial status of the organization. Financial reporting helps in decision-making and in increasing accountability, openness, and transparency. It also helps to improve the performance of, and trust in, the public sector.

Public entities are accountable to the providers of money and to the recipients of the goods and services the entity delivers. From the overall results based on the measure of performance used by this study, it shows that the selected higher learning public institutions were performing well for the last five years. The above observations are connected with the finding of Dittenhofer (2001) on effectiveness of financial reporting on organizational financial performance. Apart from that, International Financial Reporting Standard (IFRS) declare that the organization financial performance is depending on the disclosure of financial reporting standard.

Table 4. Respondent Opinion on Indicators of Financial Performance

Statements	**Yes**		**No**		**Total**	
	F	**%**	**F**	**%**	**F**	**%**
Do you consider that the accountability in your institution for the last five years is practiced to a greater extent?	45	75	15	25	**60**	**100**
Do you consider that the practice of proper financial reporting in your institution has been increased for the last five years?	46	76.7	14	23.3	**60**	**100**

Source: Field Data 2020 NOTE 'F' Frequency

VII. CONCLUSION AND RECOMMENDATION

The study concluded that the control environment, as indicators of internal control systems has a significant influence on the financial performance of the public institutions of higher learning in Zanzibar, Tanzania. More than 60 percent of the total respondents have agreed and strongly agreed that control environment indicators of internal control systems can influence the higher learning institutional financial performance.

The study recommended that the control environment should on a regular basis be evaluated by internal audit department to provide management with the assurance on the adequacy and effectiveness of mitigation controls that management has put in place. There is need also for the employees responsible for preparation of financial statements and reporting to be transparent and honest and also be held accountable for any misreporting

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