

**INFLUENCE OF INTERNAL CONTROLS ON PERFORMANCE OF  
COUNTY GOVERNMENTS IN KENYA**

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## DECLARATION

I declare that this project is my original work and has not been submitted for an award of a degree in any other University for examination/academic purposes

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Above all, thanks to my God because of the unwavering provision, love and protection in all moment of lack and despair, fear and discouragement. Individually I take the formatting errors that would be spotted in this script. My special gratitude goes to my supervisor .Dr. Aduda who tirelessly through his effort, experience, expertise and initiative guided me through the whole process. I would like to acknowledge all the MBA students, colleagues, friends and my family especially for their moral and material support for the completion of this project.

## **DEDICATION**

This project is dedicated to my parents for their financial support and Lecturers of the University of Nairobi School of Business for their tireless efforts of supporting me academically and emotionally as their continual guidance and support contributed to the completion of this project within the stipulated timeframe.

## **ABBREVIATIONS AND ACRONYMS**

<b>ACCA</b>	Association of Chartered Certified Accountant
<b>CPD</b>	Continuing Professional Development
<b>ERP</b>	Enterprise Resource Planning
<b>GOK</b>	Government of Kenya
<b>IC</b>	Internal Controls
<b>ICPAK</b>	Institute of Certified Public Accountants of Kenya
<b>IFRS</b>	International Financial Reporting Standards
<b>MVA</b>	Market Value Added
<b>OCoB</b>	Office of Controller of Budget
<b>TI</b>	Transparency International

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## ABSTRACT

The study sought to investigate the influence of internal controls on performance of County Governments in Kenya. The drive behind the study was to establish internal control practices help County Governments in Kenya to perform efficiently and effectively for the benefit of the general interest. The objectives of the study were to establish; the relationship between internal audit, reporting, control of activities, information communication and risk assessment and performance of County Governments in Kenya. Descriptive research design was used to determine the influence of internal controls on the performance of County Governments in Kenya. The descriptive study method was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. Data collected was analyzed and measure quantitatively. The target population for this study included the 47 County Governments in Kenya. County Governments employees working in the finance department were the respondents in the study. Questionnaires were administered to respondents by the researcher during working hours. Drop and pick later method was applied where respondents had no time to respond immediately. Secondary data was gathered from library materials, County Government reports, media publications and various Internet search engines covering the business process management of County Government in Kenya. Descriptive statistics was used to analyze data where mean, standard deviation and standard error used to summarize and relate variables which were attained from the study. The study adopted regression analysis. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables The study established that County Governments did not implement internal audits recommended by the Auditor General to improve management of financial resources. The study established that employee did not submit weekly reports neither held meetings to discuss the progress of activities. The study established that there was no clear separation of roles among workers and employee work was not checked by others. The study established that majority of the County Government employees were ICT illiterate and did not manage to submit reports online to their supervisors due to inadequate trainings. The study established that majority of the County Governments were not conversant with the global environment including the political, economic, social and technological due to inadequate trainings. The study recommends that an external body to be established by the National Government to audit County Governments regularly for accountability. Therefore, this study recommends that top management should carry out periodical employee evaluation to promote motivation and positive contribution towards goals of the organization. The study recommends that top management should allocate enough resources to empower employees with necessary skills to perform. This study recommends that that all County Governments should invest in modern ICT systems to improve service delivery to key stakeholders. Tthis study recommends that County Government leaders should be exposed to international forums and conferences to learn more experiences.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

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 organizations 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 (OECD, 2007).

It is very important that organizations have fairly summarized accounting information data disclosure (Sebbowa, 2009). However, in general, a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

### **1.1.1 County Performance**

Performance management in the public sector is the managerial activity necessary to promote well-performing policy management and service delivery Dwivedi (2002). Organizational performance management in a government context concerns monitoring the success of public policy, programmes or projects in achieving their objectives and in securing the expected benefits. According to Transparency International Survey conducted in 2014 on County Governments Performance in Kenya clearly indicated that 41% of the Kenya populations from the 47 were unsatisfied with the performance of their Counties. Majority of the population measured performance of their County Governments based on; Success for effective and efficient use of County revenue on development projects including infrastructure, health, education, trade and corporate social responsibility.

The second measurement included the client/ citizen satisfaction with services offered by the County Government. It includes issues about the effectiveness of service delivery. The third perspective included the internal business process that covers the communication among key stakeholders, timely reporting, and risk management by departments at the county level and internal control practices for the benefit of the citizen. Fourth perspective was the ability of the County Government to create new opportunities for the unemployed population, promote small and medium enterprises through funding, marketing the agricultural produce in new markets and creating tourist attraction opportunities. Finally, transparency and direct accountability of leaders was another element of performance according to Transparency International Report.

### **1.1.2 Organizational Performance**

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results (John & Morris, 2011). Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable. Creating flexible, high-performing, learning organizations is the secret to gaining competitive advantage in a world that won't stand still. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment) (Jenning et al., 2008).

Performance management is commonly used today to describe a range of managerial activities designed to monitor, measure and adjust aspects of individual and organizational performance through management controls of various types (Kotey & Ashelby., 2002). Performance management integrates the management of organizational performance with the management of individual performance. Organizational performance management can serve two distinct functions which include; Intra-organizational performance management and Extra-organizational performance management Whittington & Kurt (2001)

Intra-organizational performance management ensures that there are appropriate internal controls to monitor the extent to which the organization (and its sub-units) is achieving what it is supposed to achieve (Hitt, et al., 2010). This requires the organizational management to periodically review and evaluate performance standards attained and

performance trajectories, taking corrective action as appropriate where deviations from the desired standards are detected. On the other hand, extra-organizational performance management involve communication of performance for the purposes of governance and accountability to organizational stakeholders including Government, funding bodies, audit agencies and the wider public (Kotey & Ashelby., 2002).

There is no requirement for an organization to have an intra-organizational performance management system (Kotey & Ashelby., 2002). However, there is clear evidence that having clarity of purpose and the means to monitor progress towards goal attainment does promote a performance culture in organizations (public and private) which achieves enhanced organizational performance levels. There are requirements, often statutory, for public sector organizations to maintain high standards of corporate governance, accountability and public reporting. This requires systems of extra organizational performance management (John & Morris, 2011).

### **1.1.3 Internal Control and County Performance**

Internal control refers to means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (machinery and property) and intangible (reputation or intellectual property such as trademarks) (Jenning et al., 2008). Internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a process affected by an entity's board of directors' management and other persons designed to provide reasonable assurance regarding the achievements of objectives in the following categories; efficiency and effectiveness of

operations, reliability of financial reporting and compliance with applicable laws and regulations (Donald & Delno 2009).

Organizational performance management is to introduce systematic controls in the management process to guide and regulate the activities of an organization or any of its parts, by means of management judgment, decision, and action for the purposes of attaining agreed objectives (Whittington & Kurt, 2001). In an organization, control consists of verifying whether everything occurs in conformity with the plan adopted; instructions issued; and the principles established. Controls can be either strategic or operational. Strategic controls are concerned with the overall performance of the organization or a significant part of it (Hitt, et al, 2010)

Operational controls measure activities within sub-units of an organization and usually cover a shorter time period than strategic controls. All such controls check whether the organization's strategic and operational plans are being realized and put into effect corrective measures where deviations from expected performance levels or shortfalls are occurring Whittington & Kurt (2001). Control can take place before, during or after an event, (the earlier the better), but many controls can only realistically be introduced after organizational activity has taken place as they gauge the effect of organizational actions.

#### **1.1.4 County Governments in Kenya**

The constitution of Kenya creates 47 county governments. This number is based on the delineation of administrative districts as created under the Provinces and Districts Act of 1992. The mandate of County Government is to execute development activities in collaboration with the National Government through budget allocation annually. Despite

the annual budget allocation, performance of County Governments in Kenya has remained a big challenge due to misappropriation of financial resources due to ineffective of internal control practices/systems. Regardless of the internal control practices, it is evident that County Governments in Kenya are inefficient and ineffective based on their internal control practices. However, the motive behind this study is to investigate the effect of internal controls in performance of County Governments in Kenya thus coming up with appropriate measures to reduce the felt difficulty among County Governments in Kenya in terms of financial management (GOK, 2013).

## **1.2 Research Problem**

The internal control is 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 internal and external's firm (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 of directors that the organization's objectives will be achieved. "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). The continued involvement of County Governments in the affairs of supervisory capacity has ensured continuity and faster rise, growth and prosperity.

However, related studies that have been conducted in Kenya with regard to 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 is concerned at the County level include; struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of County resources have been unearthed and a number of decisions made have not yielded the expected results.

A study carried out by Aikins in the United States (2008) on examination of government internal audits ' role in improving financial performance established that in general, local government auditors performed more audits in operational areas that deal with fiscal receipts and outlays. In addition, auditors' work significantly influenced local government financial performance both directly and indirectly through improvements in internal controls and efficiency of operations. A study carried out in Nigeria by Owizy (2008) Assessment of Effectiveness of Internal Control in Government Ministries: A Case study of Benue State Ministry of Finance. The study found out that Benue State ministry of finance do prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness.

A study by Ochoge in Uganda (2011) on internal controls and organizational performance: a case of Medipont industries limited identified that the internal controls used in Medipoint Industries Limited were ineffective and unsatisfactory, the level of organizational performance was found to be inadequate and a significant positive relationship between internal controls and organizational performance was established to exist.

Studies conducted by Simiyu (2011) on effectiveness of internal control system in parastatals in Kenya, Mugwe (2010) on Internal control practices on performance of manufacturing companies in Kenya, Webola (2009) on the relationship of internal control and resource management of NGO's in Tanzania clearly indicated that organizations 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 studies that were carried out did not focus on the effectiveness of internal controls on performance of County Governments in Kenya. In addition, the findings of the study that were carried out were too general and did not focus specifically on the effectiveness of internal control on performance of County Governments in Kenya. Previous studies that have been carried out focused in different sectors and carried out in different environments. It was for this reason that this study sought to investigate the effectiveness of internal controls on performance of County Governments in Kenya.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

- i. To establish the relationship between internal control systems on performance of County Governments, Kenya.

#### **1.3.2 Specific Objectives**

The specific objectives of this study were to establish;

- i. The relationship between internal audit and performance of County Governments in Kenya.

- ii. The relationship between reporting and performance of County Governments in Kenya.
- iii. The relationship between control of activities and performance of County Governments in Kenya.
- iv. The relationship between information communication and performance of County Governments in Kenya.
- v. The relationship between risk assessment and performance of County Governments in Kenya.

#### **1.4 Value of the Study**

The results of the study will help identify gaps within the systems of internal control in County Governments in Kenya. It is also the researcher's belief that invaluable benefits to management and those charged with governance in County Governments in Kenya will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the County objectives. The study will also add to the existing knowledge regarding internal controls systems by the County Governments. The development partners who are usually interested at helping the County Governments in Kenya to prosper will have an understanding of a wide variety of factors that hinder the County Governments in Kenya hence sustainability. Scholars and researchers who would like to carry out more studies on internal Controls and performance in County Governments in Kenya will find the study beneficial.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The chapter outlines; theoretical foundation of the study, determinants of internal control, organizational performance, measures of performance, internal controls and performance of county governments in Kenya, empirical studies and chapter summary.

### **2.2 Theoretical Foundation of the Study**

Various theories that arguments in this study are based include; agency theory, attribution theory and procedural justice theory.

#### **2.2.1 Agency Theory**

Agency theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents. Accordingly, Barlie & Means (2010) posit that in order to harmonize the interests of the agent and the 13 principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Coarse (2010) who maintains that the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work.

He however, proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Coarse (2010) explains that moral hazard and

adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done. This therefore, affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual.

### **2.2.2 Attribution Theory**

Attribution theory is a social psychology theory concerned with how people interpret events and behaviors, and how people ascribe causes to the events and behaviors. Research using attribution theory examines the use of information in the social environment to explain events and behaviors (Schroth & Shah, 2000). According to Reffett (2007), “when evaluators believe 10 comparable persons would have acted differently in a given circumstance, evaluators tends to attribute responsibility for an outcome to the person. Conversely, when evaluators believe comparable persons would have acted similarly, evaluators tends to attribute responsibility for the outcome to the situation.” The former refers to internal or dispositional attributions, while the latter refers to external or situational attributions (Wilks and Zimbelman, 2004).

Prior literature (Wilks and Zimbelman, 2004) has shown people are inclined to attribute others’ behavior to dispositional tendencies and to attribute their own behavior to situational circumstances. This is often true, when the observed behavior is negative, similar to fraud. Bonner et al. (1998) found that auditors were more likely to be sued when they fail to detect common frauds, and the evaluators believed that the fraud would have been detected by other auditors.

### **2.2.3 Procedural Justice Theory**

Procedural justice theory is a social psychology theory concerned with decision making process and the impact of the process on social relationship. The theory focuses on what constitutes fair decision procedures, and is the basis for the practice of decision-makers to use and apply laws or criteria that they believe are fair, just, and relevant to the decision making process (Patterson & Smith, 2007). The value perception may convey positive or negative signals to the group under scrutiny. These positive or negative signals occur irrespective of the direction of the legal case. Thus, external attribution occurs, if an auditor perceives the procedures as being unfair, and their litigation as negative (Carter et al., 1991).

Also, there is an indication of external attribution when the procedures are perceived as being unfair, and being litigated as positive (Wilks and Zimbelman, 2004). On the other hand, an internal attribution is observed when an auditor sees the procedures as being fair, and their being litigated as positive. Finally, an internal attribution is indicated when an auditor sees the procedures as being fair, and their being litigated as negative. Using prior research findings as an indicator, it is expected in a case of an alleged failed audit, auditors are more likely to be sued. Regulators and investors will most likely be inclined to attribute the cause of the alleged failed audit to negligence on the part of the auditors, especially since auditors are mostly sued for meritorious claims (Zhang, & Zhou, 2007).

## **2.3 Determinants of County Performance**

### **2.3.1 Internal Audit**

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. IA has four main components: (1) verification of written records; (2) analysis of policy; (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies; and (4) reporting recommendations for improvements to management (Zhang, & Zhou, 2007).

Indeed, IA has become an indispensable management tool for achieving effective control in both public and private organizations (Halligan, 2007). Control mechanisms are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of seeing that enterprise objectives are met. By detecting weaknesses in management operations, IA provides a basis for correcting deficiencies that have eluded the first line of defence before these deficiencies become uncontrollable or are exposed in the external auditor's report (Patterson & Smith, 2007).

### **2.3.2 Reporting**

Internal reporting is a business practice which involves collecting information for internal use. Big firms rely on internal reporting to make a variety of management decisions and small companies can also benefit from internal reports. In some companies, a specific

staff member is charged with internal reporting, while in others, people complete internal reports as part of their jobs (Patterson & Smith, 2007). These reports are not designed to be made public and may include confidential or proprietary information. One important area of internal reporting is financial reporting.

Financial reports are used to monitor a company's financial health and can inform decisions which need to be made about the direction in which a company will be taken (Sharp, Jones, and Smith, 2006). For example, an internal report could reveal that one division spends a lot of money without generating very much revenue and managers could discuss how to make that division more efficient or consider the possibility of closing that division altogether. Internal reporting can also include reports on employees. These reports can discuss efficiency, job performance, and other aspects of employee activity which may be of concern. Many companies also support whistleblowing activity, encouraging employees to file reports if they suspect that activities may be violating the law or company policy (Wilks and Zimbelman, 2004).

### **2.3.3 Control Activities**

Control activities are the policies and procedures implemented by an organization to ensure that management's directives are carried out. These activities are often grouped into the three categories of objectives to which they relate, namely, operations, financial reporting, and compliance (Shelton & Whittington, 2008). He further argues that these control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, segregation of duties and authority. Palfi and Muresan (2009) also mention Control activities as another component of internal controls. They note that

control activities are policies and procedures that help ensure that management directives are carried out.

Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control according to Reid & Ashelby (2002) is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non-routine monitoring activities such as period audits by the internal auditors (Whittington & Kurt 2001). Generally, internal control is very important to the reliability of financial statements when the internal control system examined closely in timeliness.

#### **2.3.4 Information and Communication**

According to Ogneva et al., (2007) Information and communication refer to the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated/required data and flows both vertically and horizontally in the organization. Ogneva et al., (2007) looks at information and communication component as the

identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish the financial reporting objectives.

Open channels of communication are necessary to allow information to flow throughout the entity and into the financial statements and therefore management should discuss the identification, capture, and flow of financial information in its report (Schroth & Shah, 2000). An agency's control structure must provide for the identification, capture and exchange of information both within the agency and with external parties. For example, management relies on the information system, including the accounting system, for reporting on agency or program activities to the Legislature, oversight agencies, and federal grantors. Accurate information communicated in a timely manner is, therefore, the focus of the component of internal control (Woolf, 2010).

### **2.3.5 Risk Assessment**

Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Maitin, 2010). It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Consequently Menon & Williams (2010) looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets. This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.

According to Menon & Williams (2010) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude

it from achieving its mission. Risk assessment is the identification and analysis of the relevant risks to achievement of the objective, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change (Crerar, 2007).

Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence (Morris, 2011). The second internal control standard addresses risk assessment. Internal control should provide for an assessment of the risks the agency faces from both internal and external 20 sources. Once risks have been identified, they should be analyzed for their possible effect.

### **2.3.6 Performance**

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (2010) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 2010). According to John & Morris (2011), a desire for improved performance in Counties in Kenya has resulted common approach to performance management which involves five steps which include:

Defining and communicating a future state of affairs that the organization will attempt to achieve. This serves as the rationale for objectives and targets which stretch

organizational capability. Translating these aspirations into long and short-term objectives, output and outcome performance indicators and targets against which performance and progress can be measured (John & Morris, 2011). Ownership must permeate the organization structure and cascade through organizational levels with each level and each individual having responsibility for specific objectives and targets which, if realized, contribute to the attainment of key performance indicators and outcomes which the organization is charged with achieving (Whittington & Kurt, 2001).

Acceptance by management and organizational members of their collective and individual accountability for performance attained is essential. Accountability for delivering against individual short and long-term targets, once clearly defined, allows for the operation of systematic and comprehensive performance monitoring, review and evaluation and reinforcing mechanisms must be in place, encompassing an appropriate set of positive and negative incentives (both organizational and individual) with positive consequences for success and negative consequences for underperformance against plan (Hitt, et al., 2010).

## **2.4 Empirical Studies**

A study carried out by Aikins in the United States (2008) on examination of government internal audits ' role in improving financial performance intended to examines how the work of government internal audits lead to improvements in government financial performance. Although internal audit is one area with the expertise to assess efficient utilization of financial resources and help improve oversight and financial performance, public administration research has paid little attention to the role of internal audit in the financial management process.

A study carried out in Nigeria by Owizy (2008) Assessment of Effectiveness of Internal Control in Government Ministries: A Case study of Benue State Ministry of Finance. The study tackled the importance of evaluating the effectiveness of internal control system in government ministries (Units). With particular reference to Benue State ministry of finance, the study sought to find out the impact of internal control system on the performance of Benue State ministry of finance. The study found out that Benue State ministry of finance do prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness despite the internal challenges experienced like; poor communication.

A study by ochoge in Uganda (2011) on internal controls and organizational performance: a case of Medipont industries limited sought to establish a relationship between internal control and organizational performance of Medipoint Industries Limited. It was concluded; the study findings indicated that the internal controls used in Medipoint Industries Limited were ineffective and unsatisfactory, the level of organizational performance was found to be inadequate and a significant positive relationship between internal controls and organizational performance was established to exist.

A study carried out by Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in regard with the bank 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) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study revealed that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks (Simiyu, 2011).

A study by Transparency International (2013) on performance of County Governments in Kenya clearly indicated that County Governments were facing challenges in measuring their performance in terms of citizen perception on service delivery, communication, reporting and financial accountability to key stakeholders.

A study conducted by Simiyu (2011) on effectiveness of internal control system in parastatals in Kenya, clearly indicated that organizations face quite a number of challenges during internal controls in performance like; financial reports are not made timely, frauds and misuse of institutional resources.

A study by Mugwe (2010) on Internal control practices on performance of manufacturing companies in Kenya clearly indicated that manufacturing companies have struggles with liquidity problems and accountability for the financial resources is still wanting.

Also a study by Mecha (2010) on the relationship between Internal Control and Performance of Government Ministries in Kenya observed that effective internal control practices like communication, and timely reporting contributed to improved performance of Government ministries.

A study by Mutai (2009) on factors influencing performance of local Government Authorities in Kenya observed that lack of transparency and clear control systems was a key challenge to performance of local authorities in Kenya.

## **2.5 Chapter summary**

The chapter outlines the theoretical foundation of the study, determinants of county performance which include internal audit, reporting, Information and Communication, Risk Assessment, control activities, Performance, performance measurement and empirical studies.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research design and methodology that was used in the study. It describes the population studied and the sampling design used. It also discusses the data collection and analysis techniques.

### **3.2 Research Design**

Krishnaswami (2003) defined the research design as an arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose with economy in procedures. Kombo and Tromp (2006) defined research design as the structure of research which is used to hold all the elements in a research project together. Therefore, the design is a framework used to attach the research components together. This part dealt with the methodology and procedures that were used in the study. The research design therefore was seen as a conceptual structure within the research conducted with an intention to explore new knowledge to a recent study.

The researcher used descriptive research design to determine the influence of internal controls on the performance of County Governments in Kenya. The descriptive study method was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. The descriptive study aimed at obtaining information that was analyzed, patterns extracted and comparison made for the purpose of clarification and provision of basis for making decisions. Both qualitative and quantitative data were obtained for comparison purposes.

### **3.3 Target Population**

The population of the study has been defined as a complete set of individuals, cases or objects with some common observable characteristics (Mugenda and Mugenda, 2003). Additionally, Kombo and Tromp (2006) state that a population involves a group of individuals' objects or items from which samples are taken for measurement. The population therefore was seen as the large group for which a researcher can draw a representative sample for the case of collecting information relevant to the study being conducted. Therefore, the target population for this study included the 47 County Governments in Kenya.

### **3.4 Data Collection**

The study relied mostly on primary data sources and secondary data were collected using structured questionnaires with close-ended questions. County Governments employees working in the finance department were the respondents in the study. Primary sources of data were used in this study. These were collected from respondents by the use of questionnaires as the main instruments of data collection. Questionnaires were administered to respondents by the researcher during working hours. Drop and pick later method was applied where respondents had no time to respond immediately. Secondary data was gathered from library materials, County Government reports, media publications and various Internet search engines covering the business process management of County Government in Kenya. Permission to access office circulars, strategic plans, files and manuals and other relevant documents were initiated through the Controller of Budget at the County Government.

### **3.4.1 Validity and Reliability of Research Instrument**

Validity refers to the appropriateness, meaningfulness and usefulness of inferences a researcher made based on the data collected. An appropriate inference was one that was relevant to the purpose of the study while a meaningful inference was one which said something about the meaning of the information obtained through the use of the instruments. The three types of validity are content-related validity, criterion-related validity and construct-related validity (Kombo & Tromp, 2006).

Kombo & Tromp (2006) argue that the usual procedure in assessing the content validity of a measure is to use a professional/expert in a particular field. Since the questionnaires were administered to employees of the County Governments, the inferences that were made from the data collected were valid. Reliability was a measure of the degree to which a research instrument yielded consistent research or data after repeated trials. Reliability was influenced by random error which was a deviation from a true measurement due to factors that were not effectively addressed by the researcher

Validity of research instrument was determined by the researcher through seeking opinions of experts in the field of study especially the researcher's supervisor and lecturers in the department of Business Administration at the University of Nairobi. This facilitated the necessary revision of the research instrument. Reliability of the research instrument was enhanced through a pilot study that was done on 2 County Governments in Kenya (Kisumu and Kisii County). The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that required modification.

### 3.5 Data Analysis and Presentation

The data collected in the research was edited, coded, classified on the basis of similarity and then tabulated. To permit quantitative analysis, data was converted into numerical codes representing attributes or measurement of variables. Descriptive statistics such as frequency distributions, percentages and frequency tables were used to summarize and relate variables which were attained from the study.

The study adopted regression and correlation analysis. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables (internal audit, reporting, control of activities, information and communication and risk assessment) and the dependent variable (performance of County Governments in Kenya). Specifically the regression model was of the form.

$$P = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta$$

Where,

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  are the regression co-efficient

P –Performance of County Government

X1 – Internal Audit

X2 – Reporting

X3 – Control activities

X4 – Information and communications

X5 – Risk assessment

Regression analysis was carried out to find out the significant effect of independent variables (X1, X2, X3, X4 and X5) on dependent variable (Performance of County Governments in Kenya).

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter summarizes the major findings of this study. This study sought to find out the influence of internal controls on performance of County Governments in Kenya. In addition, this chapter provides a direction for further studies and also gives some recommendations for policy making by the relevant authorities. Questionnaires were used to gather primary data. The questionnaires comprised of both closed and open-ended questions and were strictly administered by the researcher to 47 County Governments.

### **4.2 Response Rate**

From the targeted population of 47 County Governments in Kenya, the researcher managed to get response from 40 County Governments in Kenya. This added up to a response rate of 85% which was considerably sufficient to guarantee representative findings. According to Bell (2005), a response rate of 60% is adequate to permit data analysis. The 85% response rate was achieved due to electronic questionnaire distribution and adequate time given to respondents.

### **4.3 Internal Audit Practices by the County Government**

Respondents were asked to indicate the extent to which their County Governments applied internal audit practices. The findings were summarized as shown in Table 4.1:

**Table 4.1 Internal Audit Practices by the County Government**

Internal Audit Practices	N	STRONGLY AGREE	AGREE	NOT TRUE	DISAGREE	SRONGLY DISAGREE	Mean Score	Total	S.E
		[5]	[4]	[3]	[2]	[1]			
Internal auditor makes appropriate recommendations for management to improve	47	<b>51.2</b>	2.4	17.1	26.8	<b>2.4</b>	4.22	100	.154
Internal audit department visits up-country centers often times	47	0.00	<b>41.5</b>	29.3	0.00	29.3	4.00	100	.121
Internal auditor issues Up-country reports regularly	47	22.2	<b>39.0</b>		2.4	34.1	4.00	100	.148
Internal auditor performs his duties with a greater degree of autonomy and independence from management	47	<b>39.0</b>	2.2	34.4	0.00	24.4	3.45	100	.129
Our County has an internal audit department	47	0.00	<b>39.0</b>	34.2	0.00	24.4	3.41	100	.110
Our internal audit is sufficiently staffed	47	4.9	4.8	22.0	24.4	<b>43.9</b>	3.36	100	.162
Internal audit staff conduct regular audit activities in our County	47	<b>43.9</b>	4.7	22.0	24.4	4.9	3.34	100	.162
Internal audit report address weaknesses in our internal control system	47	24.3	<b>43.9</b>	22.0	4.9	4.9	3.28	100	.162
Internal audit reports are produced regularly	47	<b>56.1</b>	22.3	0.00	22.0	0.00	3.26	100	.109
Management discusses internal audit reports frequently	47	0.00	22.0	22.1	<b>56.1</b>	0.00	3.23	100	.109
<b>Valid N (list wise)</b>	<b>47</b>								

As shown in Table 4.1, majority (51%) of the respondents indicated that internal auditors made appropriate recommendations concerning the management of financial resources for the County Governments to approve with a mean of 4.22. 42% of the respondents indicated that internal audit department visited up-country centres often times with a mean of 4.00. 39% of them indicated that internal auditors issued up-country reports regularly with a mean of 4.00.

39% of them indicated that internal auditor performed his duties with a greater degree of autonomy and independence from management with a mean of 3.45. 39% of the respondents agreed that their County Governments had an internal audit department that oversees how financial resources are spent in various projects with a mean of 3.41. 44% of them indicated that their County Governments internal audit department was understaffed and this posed challenges to the County Government performance with a mean of 3.36.

Majority (42%) of the respondents indicated that internal audit staff conducted regular audit activities in their Counties as a practice of regulating expenditure with a mean of 3.34. 44% of the respondents said that internal audit report addressed weaknesses in their internal control systems despite the challenge of implementation with a mean of 3.28. Majority of the respondents were in agreement that their County Governments had internal audit reports produced regularly despite the challenge of addressing key problems like misappropriation of funds with a mean of 3.26. 56% of the respondents indicated that their County Governments did not discuss internal audit reports generated

regularly due internal constraints including time and lack of team work among various departments with a mean of 3.23.

#### 4.4. Reporting Activities by County Governments

Respondents were asked to indicate the extent to which their County Governments practiced reporting activities. The findings were summarized as shown in Table 4.2:

**Table 4.2: Reporting Activities by County Governments**

<b>Reporting Activities</b>	<b>N</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>	<b>Mean Score</b>	<b>Total</b>	<b>S.E</b>
		[5]	[4]	[3]	[2]	[1]			
Employees submit weekly reports	47	4.6	22.2	12.4	<b>61.0</b>	0.00	2.41	100	.194
Periodical meetings are held to discuss progress of activities	47	4.5	22.2	12.1	<b>61.1</b>	0.00	2.23	100	.194
Timely feedback is given to employees	47	0.00	0.00	0.00	18.1	<b>82.0</b>	2.23	100	.194
Employee appraisals are carried out periodically	47	4.8	22.1	0.00	12.3	<b>61.4</b>	2.17	100	.194
The County has a reporting mechanism to its stakeholders	47	4.6	0.00	12.3	<b>61.2</b>	22.3	2.17	100	.194
Employees are accountable for their roles	47	4.9	<b>61.0</b>	22.2	12.2	0.00	2.13	100	.194
Employees are communicate appropriately to their supervisors	47	0.00	0.00	17.1	34.1	<b>48.8</b>	2.11	100	.105
<b>Valid N (list wise)</b>	<b>47</b>								

As shown in Table 4.2, majority (61%) of the respondents indicated that employees did not submit weekly reports due to ambiguity of roles with a mean of 2.41. 61% of them

indicated that periodical meetings were not held to discuss progress of activities due to lack of clear structures in the finance department with a mean of 2.23. 82% of the respondents indicated that they were not given timely feedback on the progress of activities due to poor structures of communication from the top to the bottom with a mean of 2.23.

61% of the respondents indicated that employee appraisals were not carried out periodically due to lack of evaluation criteria based on individual roles. 61% of the respondents indicated that their County Governments did not have reporting mechanisms to key stakeholders due to lack of harmonized policy of reporting mechanisms with a mean of 2.17. 61% of the respondents said that they were accountable to their various roles despite the ambiguity in roles with a mean of 2.13. 49% of the respondents clearly indicated that they did not communicate with their supervisors due to management gap with junior employees with a mean of 2.11.

#### **4.5 Control Activities by County Governments**

Respondents were asked to indicate the extent to which their County Governments practiced the following control activities. The findings were summarized as shown in Table 4.3:

**Table 4.3: Control Activities by County Governments**

<b>Control activities</b>	<b>N</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std Deviation</b>
Clear separation of roles	47	3	4	3.42	1.244
Employees' work checked by others	47	3	4	3.08	.906
Appropriate supervision by senior staff	47	3	3	3.47	.893
Corrective action taken to address weakness	47	3	5	3.21	1.119
Staff trained to implement system	47	2	4	3.34	.938
Well-developed Chart of Account	47	3	5	3.35	1.060
Information accessed with consent of senior staff	47	3	5	2.97	.971
No expense is incurred in excess of budgeted	47	3	4	3.05	.998
Variance reports generated with explanations	47	3	5	2.89	1.197
Security systems safeguards Assets	47	2	4	2.51	1.096
<b>Valid N (list wise)</b>	<b>47</b>				

**Source: Primary data**

In the table 4.3 above the researcher set out to examine the functionality of the internal control systems in County Governments using control activities as an internal control component. The results were analyzed using the mean and standard deviations so as to drawing conclusions from the survey. These are discussed as follows;

The results of the survey as reflected in table 4.3 suggested that respondents indicated that there was no clear separation of roles while executing finance and accounting functions. This is shown by a mean of 3.42. However a significant standard deviation of 1.2 44 is a clear manifestation of varied responses from respondents as far as lack of separation of roles is concerned.

The results of the survey as reflected in table 4.3 suggest that respondents were indifferent as to whether every employee's work is checked by others as revealed by the mean value 3.08. However, a standard deviation of 0.906 reveal varied responses from the respondents interviewed as far as checking other employees' work is concerned.

The table 4.3 reveals that respondents agree that there is appropriate supervision of junior staff by their seniors. This is revealed by a mean value of 3.47, though it is not significantly far from the "not sure" position. The standard deviation of 0.893 reveals that there were varied responses from the respondents interviewed.

The results in table 4.3 above reveal that respondents agree that corrective action is normally taken to address weaknesses as shown by a mean value of 3.21. This value is close to the midpoint position, implying that respondents were almost not sure as to whether corrective action is taken to address weaknesses. However, a significant standard deviation of 1.119 shows that there are very varied responses as far as responses to this control test was concerned.

Table 4.3 reveals that respondents agree that staffs are trained to implement Accounting and financial management system and this is shown by a mean value of 3.34. However, this seems close the midpoint of 3 implying that the respondents do seem to appreciate internal control activities. Nevertheless, a standard deviation of 0.938, however suggests varied responses from respondents as far as staff training in the implementation of accounting and financial management systems are concerned. Staff being trained in the use of Accounting and Financial management system is an indication of the commitment to the effectiveness of systems of internal control. The results in table 4.3 suggest that

respondents agree to a small extent that the County Governments had a well-developed chart of accounts. This is revealed by a mean of 3.35. However a significant standard deviation of 1.06 suggests that there were varied responses as far as this test concerned.

The results in table 4.3 indicate that respondents were almost indifferent as whether “it is impossible for one staff to have access to all valuable information without the consent of senior staff. This is revealed by a mean value of 2.97, which is very close to the “not sure” position although the standard deviation of 0.971 indicates the respondents varied greatly as far as this test was concerned. This may be an indication of lack of segregation of duties which may impact on the reliability of financial reports.

The results in table 4.3 above revealed that respondents were not sure as to whether controls are in place to exclude incurring expenditure in excess of allocated funds. This is revealed by a mean value of 3.05 which is very close the average of 3 (i.e. the not sure position). However, the deviation of 0.998 suggests varied responses to the test from the respondents interviewed. The finding could be a failure in the monitoring aspect.

The results in table 4.3 suggest that respondents disagreed with the test statement that “departmental budgets are reviewed with actual expenditure compared with budgets and explanations for the variances obtained”. This is revealed by a mean value of 2.89. However, in as much as respondents disagreed with the test statement, they were tending towards the “not sure” position of 3. The standard deviation of 1.197 over the same test suggests varied responses from the respondents interviewed.

The results of the survey as reflected in table 4.3 suggest that respondents disagree with the security system ability to identify and safeguard assets of the County Government. This is revealed by a mean value of 2.51. However, a significant standard deviation of 1.096 suggests that respondents varied greatly in their responses to the test statement.

#### 4.6 Information and Communication Practices by the County Governments

Respondents were asked to indicate the extent to which their County Governments applied ICT practices to execute their duties. The findings were summarized as shown in Table 4.4:

**Table 4.4: Information and Communication Practices by the County Governments**

<b>Information and Communication Practices</b>	<b>N</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>STRONGLY DISAGREE</b>	<b>Mean Score</b>	<b>Total</b>	<b>S.E</b>
		[5]	[4]	[3]	[2]	[1]			
County employees are IT literate	47	0.00	17.3	34.3	<b>48.6</b>	0.00	2.19	100	.105
County employees submit reports through online to their immediate supervisors	47	0.00	34.2	17.1	<b>48.7</b>	0.00	2.14	100	.105
The County has an active website	47	<b>48.5</b>	0.00	17.1	33.6	0.00	2.11	100	.105
The County encourages e-procurement	47	0.00	24.4	25.7	<b>50.1</b>	0.00	2.07	100	.109
The county promotes its services through the website	47	0.00	20.2	19.8	<b>60.1</b>	0.00	2.07	100	.109
Departments of the County are automated	47	0.00	22.1	22.9	<b>56.1</b>	0.00	2.04	100	.109
<b>Valid N (list wise)</b>	<b>47</b>								

As shown in Table 4.4, majority (47%) of the respondents indicated that the County Government employees were ICT illiterate due to inadequate trainings and lack of support by the relevant departments with a mean of 2.19. 49% of them indicated that employees did not submit reports through online to their supervisors due to inadequate support with a mean of 2.14. 49% of them indicated that their County Governments had active websites with a mean of 2.11. 50% of the respondents indicated that their County Governments did not encourage e-procurement practices due to ICT challenges in the system with a mean of 2.07. 60% of the respondents indicated that their County Governments did not promote their services through the website due to challenges of the target population to access the internet with a mean of 2.07. While 56% of them indicated that their County Governments were not automated for efficiency and effectiveness of service delivery with a mean of 2.04.

#### 4.7 Risk Assessment Practices by County Governments

Respondents were asked to indicate the extent to which their County Governments assessed risks associated with financial management. The findings were summarized as shown in Table 4.5:

**Table 4.5: Risk Assessment Practices by County Governments**

<b>Risk Assessment Practices</b>	<b>N</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>	<b>Mean Score</b>	<b>Total</b>	<b>S.E</b>
		[5]	[4]	[3]	[2]	[1]			
The County is conversant with the global environment	32	0.00	17.3	34.3	<b>48.6</b>	0.00	2.49	100	.105
Departments formulate individual strategies to	32	0.00	34.2	17.1	<b>48.7</b>	0.00	2.31	100	.105

overcome risks									
The County carry out internal audits and external audits regularly	32	0.00	15.4	14.7	<b>70.1</b>	0.00	2.29	100	.109
The County has contingent strategies to overcome risks	32	<b>40.1</b>	30.2	29.8	0.00	0.00	2.19	100	.109
The County analyze the internal environment before introducing any change	32	0.00	20.1	25.9	<b>55.1</b>	0.00	2.14	100	.109
The County analyze the external environment before making any decision	32	0.00	22.3	21.9	<b>56.1</b>	0.00	2.10	100	.109

As shown in Table 4.5; majority (49%) of the respondents indicated that their County Governments were not conversant with the global environment due to inability to anticipate the changes in the external environment by leaders with a mean of 2.49. 49% of them also indicated that departments did not formulate individual strategies to overcome risks with a mean of 2.31. 70% of them indicated that their County Governments did not conduct internal and external audits regularly due to inadequate support from management with a mean of 2.29. 40% of them indicated that their County Governments had contingent strategies to overcome risks despite the challenge of implementation with a mean of 2.19. 55% of them indicated that their County Governments did not analyze the external environment before introducing any change due to internal challenges like rigid structures with a mean of 2.14. 56% of them indicated their County Governments did not analyze the external environment before making decision due to lack of global exposure to leaders with a mean of 2.10.

#### 4.8 Relationship between Independent and Dependent Variables

**Table 4.6: Coefficient of Determination**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.139	1.2235		1.615	0.367
	Internal Audit	.887	0.1032	0.152	4.223	.0142
	Reporting	0.752	0.3425	0.054	3.724	.0169
	Control of Activities	0.645	0.2178	0.116	3.936	.0191
	Information and Communication	.539	0.1937	0.263	3.247	.0254
	Risk Assessment	.429	0.1837	0.113	3.226	.0148

**Source: Author (2014)**

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Performance of County Governments in Kenya) that is explained by all the five independent variables (internal audit, reporting, control of activities, information and communication and risk assessment).

Multiple regression analysis was conducted to determine the relationship between performance of County Governments and the four variables. As per the SPSS generated table above, the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$ ) becomes:

$$Y = 1.139 + 0.887X_1 + 0.752X_2 + 0.465X_3 + 0.539X_4 + 0.429X_5$$

According to the regression equation established, taking all factors into account (internal audit, reporting, control of activities, information and communication and risk assessment) constant at zero, sustainable competitiveness will be 1.139. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in internal audit will lead to a 0.887 performance of County Governments in Kenya ; a unit increase in internal reporting will lead to a 0.752 performance of County Governments in Kenya, a unit increase in control activities will lead to a 0.465 performance of County Governments in Kenya; a unit increase in information and communication will lead to a 0.539 performance of County Governments in Kenya and a unit increase in risk assessment will lead to 0.429 performance of County Governments in Kenya . At 5% level of significance and 95% level of confidence, internal audit had a 0.0142 level of significance, reporting showed a 0.0169 level of significance, control of activities showed a 0.0191 level of significance information and communication showed a 0.0254 level of significance and risk assessment showed a 0.0148 After regression analysis, it can be concluded that there is a positive relationship between independent variables (internal audit, reporting, control of activities, information and communication and risk assessment) and dependent variable ( Performance of County Governments in Kenya).

## **CHAPTER FIVE: SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

This chapter presents summaries of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

### **5.2 Summary findings**

This part presents the summarized results and interpretation (findings) based on the study objectives as established at the beginning of the study.

#### **5.2.1 Internal Audit System**

The study found out majority of the County Government did not implement internal audits recommended by the Auditor General to improve management of financial resources. The study also revealed that most of the County Governments were understaffed and this resulted to poor service delivery of the finance department. It was established that internal control carried out addressed weaknesses but implementation was a key challenge due to inadequate support. It was established that County Governments did not discuss internal audit reports due to internal and external challenges including structure of communication and team spirit.

#### **5.2.2 Reporting**

The study established that employee did not submit weekly reports neither held meetings to discuss the progress of activities. It was also established that employees were not given

timely feedback due to unclear structures and role ambiguity. It was established that employee appraisals were not carried out periodically due to lack of training needs analysis. It was established that the most of the County Governments did not have appropriate mechanisms of communication to its key stakeholders. Also it was identified that employees were accountable for their roles despite unclear role specification and poor communication from their supervisors.

### **5.2.3 Control Activities**

The study established that there was no clear separation of roles among workers and employee work was not checked by others. It was also identified that supervisors did not apply appropriate measures to respond to employee demands despite the little effort of taking corrective action to address weaknesses. Inadequate training among County Government staff also affected the performance of County Governments. The study established that there was no clear chart of account to help employees perform their duties more efficiently and effectively. It was established that none of the employees accessed information without the consent of their supervisors. Finally, it was established that security systems that were in place did not safeguard County Government assets.

### **5.2.4 Information and Communication**

The study established that majority of the County Government employees were ICT illiterate and did not manage to submit reports online to their supervisors due to inadequate trainings. The study also established that most of the County Government websites were active despite the challenge of implementing the projects posted on the website. Also it was identified that the County Governments did not practice e-

procurement due to ICT challenges in the system and inadequate training to existing employees. The culture of promoting services by the County Government on the website was not a common practice. It was established that most of the County Government departments were not automated to enhance service delivery to various stakeholders due to inadequate support from management.

### **5.2.5 Risk Assessment**

The study established that majority of the County Governments were not conversant with the global environment including the political, economic, social and technological due to inadequate trainings. It was also established that departments did not have contingent strategies to minimize risk. It was established that the County Governments did not carry out frequent internal audits on their performance due to internal challenges. The analysis of the internal and external environment by the County Governments before making decisions were key challenges due to changes that cannot be anticipated.

### **5.3 Conclusions**

Based on the findings of the study, it is concluded that the County Governments in Kenya should embrace effective internal control system always like internal audits, reporting, control of activities, information and communication and risk assessment to remain competitive. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the upcountry centers which clearly has affected their efficiency as revealed by this study. On financial performance of the County Governments, the study concludes that the liquidity position of the County Governments in Kenya is not appropriate, details of which are directly in the study, although the study reveals an improved assets value as well as classification of its

revenues and expenditures. The final conclusion of this study is that there is a significant positive relationship between internal control and performance of County Governments in Kenya. Finally, it can be concluded that unless County Governments accept to adopt internal control practices, realizing their long term objectives will be a fallacy in the changing business environment.

#### **5.4 Recommendations**

The study found out majority of the County Government did not implement internal audits recommended by the Auditor General to improve management of financial resources. Therefore, this study recommends that an external body to be established by the National Government to audit County Governments regularly for accountability.

The study also revealed that most of the County Governments were understaffed and this resulted to poor service delivery of the finance department. Therefore, this study recommends that County Governments should carry out Employee inventory analysis to determine gaps through an external human resource agency.

It was established that internal audit carried out addressed weaknesses but implementation was a key challenge due to inadequate support. Therefore, this study recommends that top management should allocate enough resources and support the issues that hinder implementation process of internal audits.

It was established that County Governments did not discuss internal audit reports due to internal and external challenges including structure of communication and team spirit. Therefore, this study recommends that flexibility of the structure and open communication should be encouraged for efficiency and effectiveness.

The study established that employee did not submit weekly reports neither held meetings to discuss the progress of activities. It was also established that employees were not given timely feedback due to unclear structures and role ambiguity. Therefore, this study recommends that managers and supervisors should encourage a culture of open communication within the system to encourage staff to work towards common goals.

It was established that employee appraisals were not carried out periodically due to lack of training needs analysis. Therefore, this study recommends that periodical employee evaluations to be carried out to motivate workers to perform. It was established that the most of the County Governments did not have appropriate mechanisms of communication to its key stakeholders. Also it was identified that employees were accountable for their roles despite unclear role specification and poor communication from their supervisors. Therefore, this study recommends that Public service boards of County Governments in Kenya to develop a harmonized employee reference guide to enable them understand their specific roles.

The study established that there was no clear separation of roles among workers and employee work was not checked by others. Therefore, this study recommends that top management should carry out periodical employee evaluation to promote motivation and positive contribution towards goals of the organization. It was also identifies inadequate training among County Government staff also affected the performance of County Governments. Therefore, this study recommends that top management should allocate enough resources to empower employees with necessary skills to perform.

The study established that there was no clear chart of account to help employees perform their duties more efficiently and effectively. Therefore, this study recommends that top management should review the existing structure for efficiency and effectiveness. It was established that security systems that were in place did not safeguard County Government assets. Therefore, this study recommends that that all County Governments should invest in modern ICT systems to improve service delivery to key stakeholders.

The study established that majority of the County Government employees were ICT illiterate and did not manage to submit reports online to their supervisors due to inadequate trainings. Therefore, this study recommends that the top management should allocate training budget to all departments to empower employees with necessary skills to perform. The study also established that most of the County Government websites were active despite the challenge of implementing the projects posted on the website.

Also it was identified that the County Governments did not practice e-procurement due to ICT challenges in the system and inadequate training to existing employees. Therefore, this study recommends that all County Governments should embrace ICT culture through the support from top level management and training of staff. It was established that most of the County Government departments were not automated to enhance service delivery to various stakeholders due to inadequate support from management. Therefore, this study recommends that to improve service delivery and minimize costs of operation, ICT integration in the departments was key.

The study established that majority of the County Governments were not conversant with the global environment including the political, economic, social and technological due to inadequate trainings. Therefore, this study recommends that County Government leaders should be exposed to international forums and conferences to learn more experiences.

It was also established that departments did not have contingent strategies to minimize risk. Therefore, this study recommends that supervisors should decentralize their powers and encourage junior employees to make independent decisions. It was established that the County Governments did not carry out frequent internal audits on their performance due to internal challenges. Therefore, this study recommends that periodical internal audits among County Governments to be carried out by external agencies. The analysis of the internal and external environment by the County Governments before making decisions were key challenges due to changes that cannot be anticipated. Therefore, this study recommends that managers should anticipate future changes based on research.

### **5.5 Suggestions for Further Research**

Future studies should explore the reasons behind the influence of internal control system on performance of County Governments in Kenya. Researchers should go ahead and establish the reasons behind the failure of internal control practices among County Government. Future studies will minimize the challenges experienced by County Governments in Kenya. Future studies should try to investigate the relationship between internal control practices and performance of County Governments in Kenya.

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## APPENDICES

### Appendix I: Introductory Letter

**C/O University of Nairobi,  
P.o Box 30197-00100,  
Nairobi.  
Kenya.**

#### TO WHOM IT MAY CONCERN

**Dear Respondent,**

#### **REF: MBA RESEARCH STUDY**

I am a student pursuing a Masters degree in Business Administration at the University of Nairobi. In partial fulfillment of the requirements to the award of the Masters degree, I am required to carry out a study on *“Influene of Internal Controls on Performance of County Governments in Kenya”*

The choice is based on your strategic importance in the achievement of organizational goals hence improved performance of the Institution in terms of efficiency and effectiveness. I kindly request your assistance by availing time to respond to the questionnaire. A copy of the final report will be made available to you at your request. The information given will be treated with utmost confidentiality for the purpose of this study only. Your assistance will be highly appreciated.

**Thank you in advance.**

## Appendix II: Questionnaire

### SECTION A: Organizational Demographics

Please supply the required data by filling in the blanks where space is provided or by ticking [√] against the most appropriate answer.

I respondents name..... [Optional]

To examine the functionality of Internal Control systems of County Governments in Kenya,

Please rank the following statement on Likert Scale ranging from strongly disagree to strongly agree

Where;

1= strongly disagree

2= disagree

3= not sure

4= agree

5= strongly agree

#### 1. Rank the extent to which your County Government practices the following internal audits?

INTERNAL AUDIT	STRONGLY AGREE	AGREE	NOT TRUE	DISAGREE	SRONGLY DISAGREE
	[5]	[4]	[3]	[2]	[1]
Our County has an internal audit department					
Our internal audit is sufficiently staffed					
Internal audit staff conduct regular audit activities in our County					
Internal audit report address weaknesses in our internal control system					
Internal audit reports are produced regularly					
Management discusses internal audit reports frequently					
Internal auditor makes appropriate recommendations for management to improve					
Internal audit department visits up-country centers often times					

Internal auditor issues Up-country reports regularly					
Internal auditor performs his duties with a greater degree of autonomy and independence from management					

**2. Rank the extent to which your County Government practices the following reporting activities?**

<b>REPORTING ACTIVITIES</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>
	<b>[5]</b>	<b>[4]</b>	<b>[3]</b>	<b>[2]</b>	<b>[1]</b>
The County has a reporting mechanism to its stakeholders					
Employees are accountable for their roles					
Employees are communicate appropriately to their supervisors					
Employees submit weekly reports					
Periodical meetings are held to discuss progress of activities					
Timely feedback is given to employees					
Employee appraisals are carried out periodically					

**3. Rank the extent to which your County Governments practices the following control activities?**

<b>CONTROL ACTIVITIES</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>
	[5]	[4]	[3]	[2]	[1]
Our County has clear separation of roles					
Every employee's work check on the others					
There is appropriate supervision by senior staff on the work of their juniors					
Corrective action is taken to address weaknesses					
Staff are trained to implement the accounting and financial management system					
Our County has a well-developed Chart of Account					
It is impossible for one staff to have access to all valuable information without the consent of senior staff					
Controls are in place to exclude incurring expenditure in excess allocated funds					
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					
Our security system identifies and safeguard County Assets					

**4. Rank the extent to which the County Adopt ICT practices in the system?**

<b>INFORMATION AND COMMUNICATION PRACTICES</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>
	[5]	[4]	[3]	[2]	[1]
County employees are IT literate					
County employees submit reports through online to their immediate supervisors					
The County has an active website					
The County encourages e-procurement					
The county promotes its services through the website					
Departments of the County are automated					

**5. Rank the extent to which the County Assesses the Internal and External risks?**

<b>RISK ASSESSMENT PRACTICES</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>
	[5]	[4]	[3]	[2]	[1]
The County analyze the internal environment before introducing any change					
The County analyze the external environment before making any decision					
The County is conversant with the global environment					
Departments formulate individual strategies to overcome risks					
Departments					
The County carry out internal audits and external audits before introducing new courses					
The County has contingent strategies to overcome risks					

**6. Rank the extent to which your County Government measure financial performance?**

<b>FINANCIAL PERFORMANCE</b>	<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NOT TRUE</b>	<b>DISAGREE</b>	<b>SRONGLY DISAGREE</b>
	[5]	[4]	[3]	[2]	[1]
Our County has enough cash to meet its obligations effectively (as and when they fall due)					
The levies collected by our County is appropriate to cover the costs of running the courses					
All levies are dully corrected					
Outstanding levies are dully paid in time					
Our County's Accounting system adequately identifies the receipts and expenditure of grant contracts					
The County's asset base has greatly increased over time					

**Thank you for your participation.**

### **Appendix III: List of County Governments in Kenya**

1. Baringo
2. Bomet
3. Bungoma
4. Busia
5. Elgey-Marakwet
6. Embu
7. Garissa
8. Homabay
9. Isiolo
10. Kajiado
11. Kakamega
12. Kericho
13. Kiambu
14. Kilifi
15. Kirinyaga
16. Kisii
17. Kisumu
18. Kitui
19. Kwale
20. Laikipia
21. Lamu
22. Machakos
23. Makueni
24. Mandera
25. Marsabit
26. Meru
27. Migori
28. Mombasa
29. Muranga
30. Nairobi
31. Nakuru
32. Nandi
33. Narok
34. Nyamira
35. Nyandarua
36. Nyeri
37. Samburu
38. Siaya
39. Taita Taveta
40. Tana River
41. Tharaka Nithi
42. Trans Nzoia
43. Turkana
44. Uasin Gishu
45. Vihiga
46. Wajir
47. West Pokot