

**RELATIONSHIP BETWEEN INTERNAL CONTROLS AND
PERFORMANCE OF COUNTY GOVERNMENT IN KENYA**

BY

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DECLARATION

This research proposal is my original work and has not been presented for a degree in any other university.

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Date.....

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D61/69962/2013

This research proposal has been submitted for examinations with my approval as the university supervisor.

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DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS	iii
DEDICATION.....	iv
LIST OF ABBREVIATIONS AND ACRONYMS	vii
ABSTRACT.....	viii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Internal Controls	3
1.1.2 County Performance	5
1.1.3 Internal Control and County Performance	6
1.1.4 County Governments in Kenya.....	7
1.2 Research Problem	7
1.3 Research Objective	10
1.4 Value of the Study	10
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Theoretical Foundation of the Study.....	11
2.2.1 Procedural Justice Theory.....	11
2.2.2 Agency Theory.....	12
2.2.3 Attribution Theory	13
2.3 Determinants of County Performance	13
2.3.1 Control Activities.....	14
2.3.2 Internal Audit	15
2.3.3 Information and Communication	15
2.3.4 Reporting.....	16
2.4 Empirical Studies	17
2.5 Conceptual Framework.....	19
2.6 Chapter Summary	19

CHAPTER THREE: RESEARCH METHODOLOGY	20
3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Population	20
3.4 Data Collection	21
3.6 Data Analysis	21
CHAPTER FOUR.....	22
DATA ANALYSIS, RESULTS AND DISCUSSION.....	22
4.1 Introduction.....	22
4.2 Respondents’ Demographic Characteristics	22
4.2.1 Response Rate	22
4.2.3 Ages of the Respondents.....	23
4.2.4 Length of Time employed in the public service	23
4.3 Internal Control Practice	25
4.4 Effect of Internal Controls Practices on Performance	32
4.5 Discussions of the Findings	33
CHAPTER FIVE	36
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS ..	36
5.1 Introduction.....	36
5.2 Summary of the Findings.....	36
5.2 Conclusions.....	39
5.3 Recommendations of the study	39
5.4 Limitations of the Study.....	40
5.5 Recommended areas of Further Research.....	41
APPENDIX I: QUESTIONNAIRE	46
Appendix II: List of County Governments in Kenya	1

LIST OF ABBREVIATIONS AND ACRONYMS

GOK Governments in Kenya

IAS International Accounting Standards

NGO's Non-Governmental Organizations

OECD Organization for Economic Co-operative and Development

ABSTRACT

The target of the research aimed at establishing the impact of internal control practices on performance in County governments in Kenya .The study was a descriptive study and utilized primary data. The target population included the county administrators in the forty seven (47) counties in Kenya. Primary data was obtained through administering of questionnaires. The research targeted 47 respondents when data was being collected. 42 out of 47 selected respondents completed and gave back the questionnaire bringing about an 89% response rate. Respondent population is a young population that has critical undertaking of internal control procedure. The study respondents had the necessary academic qualification for them to be able to understand the topic of internal control practices. The findings indicate that the respondents were not nor sure whether the adoption of internal control practices has led to The County's asset base greatly increasing overtime. her respondents were neither sure if the County's system of accounting sufficiently recognizes the receipt and expenditure of grand contracts, they were neither sure if adoption of internal control practices has led to the adequacy of The levies collected by county to cover the cost of running the courses. They were neither sure if adoption of internal control practices has led to All levies being dully collected or paid .They were neither sure if as a result of such implementation the County has adequate funds to fulfill its responsibilities efficiently as and when they fall due. This is therefore an indication that internal control practices in the county governments has not let to improved performance at the county level. According to the results of the research, it was a conclusion that the County Governments in Kenya have adopted internal control practices but the adoption of such practices has not fully led to improvement of performance in county government

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Internal control are routines and protocols that are planned for the provision of logical security towards the achievement of the company's goal in an efficient, credible financial and administrative reporting, and finally the conformance of appropriate rules that safeguards the company's reputations. According to Brennan and Soloman (2008), internal controls are the steps that a company takes to make sure that their goals, mission and targets are reached. The above policies are connected to accounting and reports, as well as the internal and external procedures for communication in a company. Preparation of relevant and on time reports of finances, taking care of the money taken in and increased by the company, carrying out yearly audit of the company's financial statements, and preserving the records of inventory for the locations of real and other assets (OECD, 2007).

In this research, an examination of three theories will take place. These are; the Theory of Procedural Justice, the Theory of Agency, and finally, the Theory of Attribution. According to the Theory of Procedural Justice, the procedure of decision making, and its effects on social relationships, is of major interest. This theory is classified as a social psychology. It is mainly concerned with what can be classified as a reasonable decision-making process, and this acts as the platform to which these decision-makers can practice the application of these laws, which they see as reasonable (Patterson & Smith, 2007). The Theory of Agency showcases companies as indispensable structures vital for the making of formal agreements, and reduction of opportunistic tendencies of agents through the exercising control. The Theory of

Attribution on the other hand is mainly interested in the interpretation of situations and behaviors, and how people put blame for the situations and behaviors.

The performance of an organization is made up of the company's real output evaluated against the potential output. The capability of a company to achieve its objectives through strong governance, reasonable administration, and finally a consistent recommitment to attain good outcomes, is involved (John, 2011). The same applies to county governments. Non-profits that are efficient can be said to be entrepreneurial, compelled to finish tasks, outcomes-oriented, attentive to the client, adaptable and maintainable. Creation of an adaptable, well-performing and a company that is bent of acquiring knowledge is the key to obtaining a competitive vantage point in an ever-changing world. The evaluation of a company's performance can either be in terms of financial or non-financial.

Organizations should have a summary of data disclosure on a detailed financial statement (Sebbowa, 2009). However, reports of a high degree are in general influenced by domestic control processes. A common belief exists that institution and application of relevant internal control processes will most often result in a financial performance that is enhanced. Another assumption exists that well placed procedures of internal control enhance the systems of report and arrive to relevant reports that facilitate the function of accountability of the company's administration. According to Dixon et. al. (1990), relevant evaluation of performance constitutes those that make it possible for the firm to fully concentrate on their activities which are aimed at attaining their targets.

1.1.1 Internal Controls

Internal control can be defined as a set of procedures that are planned for the provision of logical security towards the achievement of the company's goal in an efficient, credible financial and administrative reporting, and finally the conformance of appropriate rules that safeguards the company's reputations. All these are executed by the administrators, the board of directors, and another staff (Cunningham, 2004). Effective internal control system occurs when some specific procedures are adopted by the management. International Accounting Standards (IAS) categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping, supervision, authorization and approvals and vocation.

Internal controls consist of five components. The base for all other constituents of internal control is the control environment. This is inclusive of components like honesty and moral values of staff whose function is to create, administer and monitor the controls, obligations and capability of individual undertaking allocated tasks, group of administrators, management philosophy and operating style and organizational structure.

Risk assessment is a procedure for the identification and analysis of the management of appropriate risks to the arrangement of financial reports that would be displayed in harmony with principles of accounting, information systems. Internal controls require that all important data be recognized, seized and conveyed in a period of time that makes it possible for individuals to undertake their obligations of financial reporting. Companies ought to make use of internal control and data procedures that outputs

financial and conformance-related information report to enable them manage and check the business. Communication that is efficient ought to happen in a reasonable way with information streaming in all sectors (Millichamp, 1999).

Control activities refer to routines and structures enforced to guarantee that the administrator's orders are effectively conducted. Relevant and exact use of documents on policies and procedural outlines assists to conclude on the execution of control actions. Monitoring of controls refers to the process of evaluating the degree of excellence over a period of time of the internal control system. Millichamp (1999) noted that the term segregation of duties is used these days for internal duties. The principal method of control is the separation of responsibilities which would make an individual to record and make a transaction possible if merged. This practice makes the risk of deliberate account manipulation decrease, and expands the element of inspection. This makes fraud more difficult to be committed because one transaction is completed by different employees.

Batra (1992) stated that control of documents involves control of company's sensitive documents for example receipts, cheques, local purchase orders, debit and credit notes. These documents must be handled by a responsible officer and should be pre-numbered to ensure control and minimize misuse. They must be kept and controlled from a central point like headquarters or any other reliable control point. De Paula et al (1990) also noted that internal controls require that business assets like plant and machinery, equipment, motor vehicle, stock and cash should be kept safely and access should be limited to authorize personnel only. The procedures designed and security measures taken to safeguard assets are referred to as Physical Controls.

1.1.2 County Performance

The management of a performance when referring to the public sector is the general administrative actions vital for the promotion of the management of policies that perform adequately and conveyance of services (Dwivedi, 2002). The management of a company's performance in the public service sector involves the supervision of the success of the guidelines and plans in attaining their targets and in obtaining the anticipated 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 the effective and efficient use of County revenue on development projects including infrastructure, health, education, trade and corporate social responsibility (GoK, 2013).

The second measurement included the client/ citizen satisfaction with services offered by the County Government. It is inclusive of problems on the efficiency of conveyance of services. The third perspective included the internal business process that covers the communication among the major stakeholders, timely reporting, and risk management by departments at the county level and internal control practices for the benefit of the citizen. The 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 (GoK, 2013).

1.1.3 Internal Control and County Performance

Internal control involves the ways in which the resources of the company are evaluated, supervised and guided. It is pertinent in the detection and prevention of fraud, and the protection of the resources of the company which is inclusive of physical (equipments) and intangible (ideas) resources (Jenning et al., 2008). The routine of internal control lessens the process change bringing about in a more foreseeable result. It is a set of procedures that are planned for the provision of logical security towards the achievement of the company's goal in an efficient opes, credible financial and administrative reporting, and finally the conformance of appropriate rules that safeguards the company's reputations. All these are executed by the administrators, the board of directors, and other staff (Donald & Delno 2009).

The aim of the management of organizational performance is to establish methodical controls in the management protocol in order to direct and govern the company's action through the utilization of administrator's assessment, and choices for the sole aim of achieving planned targets (Whittington & Kurt, 2001). In an organization, control entails confirming that all things happens in accordance with the accepted plans; given instructions; and doctrines that have been set up. Controls come in two parts, and they can either be strategic or internal. Strategic control is interested with the total performance of a firm, or the most vital part (Mecha, 2010).

In a firm, internal control evaluates the actions in the subordinates units of the firm and they generally lasts for a short time. They are usually tasked with the responsibility of checking whether or not the company's strategic and internal schemes are being achieved and enforce rectifying steps where the anticipated performances are deviating (Whittington & Kurt, 2001). These types of control

usually happens prior to, during, and subsequent to an event, and most times the more early it happens the more better it is. A great number of times however, the controls can only practically be established subsequent to the company's action because they measure the influence of the company's activity.

1.1.4 County Governments in Kenya

In the constitution of Kenya, 47 counties are delimited based on 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 research is to investigate the impact of internal controls in the performances of County Governments in Kenya thus coming up with appropriate measures to reduce the felt difficulty among County Governments in Kenya regarding financial management (GOK, 2013).

1.2 Research Problem

The internal control is a vital tool for the corporate governance of the company dependent upon the excellence of the statement for the internal control, and that it ought to be able to rule the efficiency and also affect the credibility of financial reports in both the company's external and internal environment (Skaife et al, 2007). It is of importance to note that internal controls make a provision only for logical and

not definite promises to the company's administrators and board that it has attained its goals. According to Gerrit and Abdolmohammadi (2010), the probability of the attainment of the said goals is influenced by challenges present in every internal control structure. Organizations establish these structures of internal control to assist them in the attainment of performance and the company's target, impede the loss of supplies, make the production of credible reports possible, and guarantee that the rules are being conformed to (Emasu, 2010). The continued involvement of County Governments in the affairs of supervising has guaranteed continuousness, a speedy incline, development and success. 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 the understudied area.

Some of the challenges experienced concerning internal control at the County level include; fight with performance problems, late financial reports, the need for financial resources responsibility, embezzlement of County resources and funds, and finally, many rulings have not produced the intended outcome (GOK, 2013).

A study carried out by Aikins in the United States (2008) on evaluating the governments financial accounts for the purpose of enhancing its performance, established that generally, the auditors in the county government performed more examinations in internal sectors which handles receipts. The act of auditing affected the financial performance of the government in a major way be it circuitous or directly by way of improving the internal controls and effectiveness.

A Case study of Benue State Ministry of Finance was carried out in Nigeria by Owizy (2008) on the evaluation of the efficiency of internal control in the ministries of the government. The research found that the ministry of finance in the state of Benue indeed makes preparation of yearly budgets swiftly and also possess sufficient pursuance of the spending to impede financial impulsiveness. A study by Ochoge in Uganda (2011) on the company's performance and internal control; a medipoint industries limited case study found out that their internal controls were inefficient and insufficient. The degree of organizational performance was identified to be unsatisfactory, and an important favorable connection between the organizational performance and internal controls was established.

Studies conducted by Simiyu (2011) on effectiveness of internal control system in Parastatals in Kenya, Mugwe (2010) on Internal control practices on the executions of Kenyan manufacturing firms, Webola (2009) on the relationship of internal control and resource management of NGO's in Tanzania clearly indicated that organizations face quite a number of challenges during internal controls in performance like; fight with performance problems, late financial reports, the need for financial resources responsibility, embezzlement of County resources and funds, and finally, many rulings have not produced the intended outcome.

However, the studies that were carried out did not focus on how internal controls relate to the performance of County Governments in Kenya. Besides, the findings of the study that were carried out were too general and did not focus specifically on the connection among internal control and 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 research went out to investigate the connection among internal controls and performance of County governments in Kenya and therefore the research question is: What is the connection among internal controls and performance of County government in Kenya?

1.3 Research Objective

The main goal for this research was to establish the relationship between systems of internal control on the performances of County Governments, Kenya.

1.4 Value of the Study

This research was of value to various groups in the field; the findings of the study are significant to the management of manufacturing firms because they point out the areas ignored in the internal control systems in addition to the ways of improving the quality of the system of internal control. Furthermore, the study helps to instill and develop systematic and logical thinking by all the personnel in the firm.

The findings of the study are of great importance to the government. It is going to help in setting up specific management policies that enhance performance of county governments in Kenya. The findings have shed light on the future of county governments in Kenya thus enabling potential stakeholders to make sound decisions.

This study is of great importance to academicians and future researchers in understanding the link between the internal controls and performance of the organization. The findings will also help those who were undertaking other researches related to this. It will increase and add further to the information on internal control and supply the essential knowledge to be instilled in their works.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter presents the literature review, theoretical foundation of the study explaining in details the theories the study is based on, determinants of internal control, organizational performance, measures of performance, internal controls and performance of county governments in Kenya, empirical studies related to the topic of study and the summary of the chapter.

2.2 Theoretical Foundation of the Study

Various theories are used to explain the relationship between internal controls and performance of various bodies of governance. The arguments in this study are based on different theories that include; procedural justice theory, agency theory and attribution theory.

2.2.1 Procedural Justice Theory

The theory of procedural justice was mainly introduced by Lind & Tyler in the early 1980's. Procedural justice theory is a model, often considered social psychological, that deals with the process of decision making and how the process impacts on social relationship. The model entails, component of the procedure of making fair decisions, the decision making practice foundation for use and application of law or criteria considered to be fair, just and of relevance to the process of decision makings (Patterson & Smith, 2007). Signals that are positive or negative may be conveyed by value perception to the group being scrutinized, that happen despite the legal case direction.

When procedure are viewed as unfair, yet litigated as positive, indicates an exterior attribution (Wilks and Zimmerman, 2004). There is an interior attribution when a decision is litigated as positive due to a fair procedure based on the auditors perspective. Also a fair internal attribution process can be litigated as negative. Since most auditors are often sued based on meritorious claims, what regulators and investors blame the auditors for negligence of a failed audit (Zhang, & Zhou, 2007).

2.2.2 Agency Theory

In the early 1970s, Stephen Ross and Barry Mitnick, who were the first scholars, created the agency model, individually and almost at the same time. The model explains the role of companies in the maintaining of contracts and the control of agent's behaviour. Barlie & Means (2010) states that a comprehensive contract is essential for interest harmonizing of the 13 principal and the agent which ought to be written down. Moreover, to strengthen the relationship with the agent, a principal expert is employed, an argument embraced by Coarse (2010) who perceives a contract as essential between a principal and an agent for conflict resolution purpose.

However, there is the risk of shrinkage which the principal may go through and hence unable to benefit from agent's work. Nevertheless, the information viewed as incomplete concerning agent's relationships, work performance or interests presented as a moral hazard and a harsh selection is recognized by the theory. Coarse (2010) states that the way moral hazard and selection that is adverse effects on agent's output is in two forms: failing to exactly perform what's required of the agent and a lack of knowledge concerning what to do. This has a total effect to not only the relationship but also to the advantages, in cash form, of the principal.

2.2.3 Attribution Theory

This is a psychological theory first proposed by Heider (1958) and its theoretical framework developed by Weigner and colleagues (e.g., Jones et al, 1972; Weiner, 1974, 1986) becoming a social psychology research paradigm. The model looks into events and behaviour causes and how they are interpreted using information from the social environment as the basis of explanation (Schroth & Shah, 2000). Reffett (2007) explains that a belief by evaluators of then comparable people would aact differently in a particular situation, then the responsibility of outcome is attributed to the person. Such is refered to as dispositional or internal attribution. In situational attribution, evaluation resulting to similar results means that the responsibility ought to be attributed to the situation (Wilks & Zimbelman, 2004).

Based on early literature, people often attribute their own behaviour to situational circumstances but those of others as dispositional especially when the behavior observed is negative (Wilks & Zimbelman, 2004). There is a likelihood of the auditors to be sued for failure of detecting the fraud especially if evaluators believe other auditors would have detected the fraud (Bonner et al., 1998).

2.3 Determinants of County Performance

This section discusses determinants of county performance which include; control activities, internal audit, Information and communication, reporting and performance.

2.3.1 Control Activities

Management directives in a firm, can only be carried out through a set of policies and procedures implementation. Such policies and procedures make up the control activities and are often grouped based on relating objectives that include; operational compliance and financial reporting. Activities that encompasses the policies and procedures re; approvals, verification, reconciliations, operating performance reviews, authority, assets security and duty segregation. Another control activity mentioned by Palfi and Muresan (2009) is internal control, who view control activities as policies and procedures there to enable the carrying out of managerial directives.

In a firm control activities comprise of, review of performance, that compares actual performance with budgeting, forecasting and performances, prior the period. There is also information processing that checks accuracy and transaction's authorization and completeness. Where security provision for assets and records are necessary entails physical control whereas in situations where handling the entire transaction aspects from beginning to end is carried out by no one person, comprise of duties segregation. Reid & Ashelby (2002) adds monitoring as another component of internal control. To achieve this constant monitoring and separate evaluation is necessary. For separate evaluation, monitoring of activities is non-routine an example includes periodic auditing by internal auditors (Whittington & Kurt 2001). In timelessness, internal control systems are examined a fundamental activity in internal control as it ensures that financial activities are reliable.

2.3.2 Internal Audit

Internal auditing (IA) is essential for not-to-profit and corpos providers in its linkage of the financial reporting and business process. The role of internal auditors is to monitor risk profile of a firm and identify areas of risk management that requires improvement. This ensures the firm is efficient and effective as the process will be criticized constructively. There are four key elements of internal auditing; written records verification, policy analysis, logic and procedure completeness evaluation, interior services and staffing so as to affirm their efficiency and appropriateness in firms policies and recommendations reported to improve management (Zhang, & Zhou, 2007).

Halligan (2007) recognizes the indispensability of internal auditing as a management instrument of controlling the public and private companies effectively. If an entity is to meet its set objectives, control activities are vital for monitoring, direction, promotion of restraining of company's activities. Through internal auditing, deficiencies can be corrected before their exposure in the exterior report of the auditor or becoming uncontrollable (Patterson & Smith, 2007).

2.3.3 Information and Communication

Ogneva et al (2007) identifies information and communication as the system in a firm that captures, identifies, processes and reports information that is relevant and reliable in time for effective performance of set responsibilities. Internal and exterior data generated and flowing in a vertical and horizontal manner are part of a firm's system. Ogneva et al., (2007) views information and communication component as mission accomplishments. Risk assessment is where risks are identified and analyzed so that they can achieve objectives and form the basis for the determination of the

way risks ought to be managed. With change in the economic atmosphere including the regulatory and operating situation, there is need for mechanisms that identifies and deals with change associated risks (Crerar, 2007).

In risk assessment, the probability of harsh situations and events are integrated with the possibility of both financial and non-financial losses associated with the disaster (Morris, 2011). Issues to do with risk assessment are addressed by the internal control who looks into possible risks by agencies either interior or exterior then the identified risks are analyzed for their probable impacts.

2.3.4 Reporting

Internal reporting is a practice in business involving collection of information for internal purpose. The practice of often used in large companies for diverse decision management. It is also advantageous to small firms. While some firms appoint a staff member who handles the internal reports, in others, it is the duty of every employee to come up with every report (Patterson & Smith, 2007) the confidentiality of the reports is essential since they are not meant for the public eye. With financial reports, an entity's financial health can be monitored and decisions made concerning how a company should progress (Sharp, Jones and Smith, 2006). For instance, when a department in a firm is spending more than its generating, internal report can expose such making it easier for managers work on making the department more efficient or in worst scenario, their closure. Internal reporting is inclusive of staff performance and other fundamental concerns. In other instances, it may involve reporting of activities that are not in line with policies of a firm (Wilks & Zimbelman, 2004).

2.4 Empirical Studies

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 examined internal control system performance of Benue State ministry of finance where it was found out that the institution promptly makes yearly budget and contains sufficient expense tracking for prevention of recklessness in finance despite the internal challenges experienced like; poor communication.

Ochoge (2011) conducted a study in Uganda to examine how internal control and company performance related in Medipoint Industries Limited. Based on the findings, the company used interior control that was ineffective and unfulfilling and hence a performance that was insufficient. In addition there was a positive association between internal control and firm performance.

A study conducted by Aikins in the United States (2008) sought to reveal whether financial performance was improved by governments internal audited. Internal audit is among the best in determining financial resource efficiency with assists in enhancing financial performance and management, yet there is less focus in research on how financial management process is impacted by internal auditing.

Palfi and Muresan (2009) investigated how an internal control system that is well organized benefits a bank basing its sample on 25 Romania credit institution. Based on the answers in the survey, it was concluded that collabo that is continuous with meetings that are periodical in all bank structures, featured an internal audit department that is effective.

Abu Musa (2010) conducted a study in the Saudi County government in Kenya sector to examine how adequate is the implementation of security control of accounting information that are computerized. On the results basis, sufficient security controls were in place in most Saudi banks enabling bank managers to ensure security of their accounting information system that is computerized and campaign for such if their banks have to be successful.

A study by Transparency International (2013) on performance of County Governments in Kenya noted 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. Simiyu (2011) conducted a study on the effectiveness of internal control system in Parastatals in Kenya. The findings of the study showed that organizations face quiet some challenges during internal controls in performance such as; frauds and misuse of institutional resources, and financial reports are not made timely.

Mutai (2009) carried out a study on factors influencing performance of local Government Authorities in Kenya and noted that lack of transparency and precise control systems was a key challenge to performance of local authorities in Kenya. Also a study conducted by Mugwe (2010) on Internal Control practices on

performance of manufacturing companies in Kenya clearly observed that manufacturing companies have struggled with performance problems and accountability for the financial resources is still wanting. Another a study by Mecha (2010) on the relationship between Internal Control and Performance of Government Ministries in Kenya indicated that effective internal control practices like communication, and timely reporting contributed to improved performance of Government ministries.

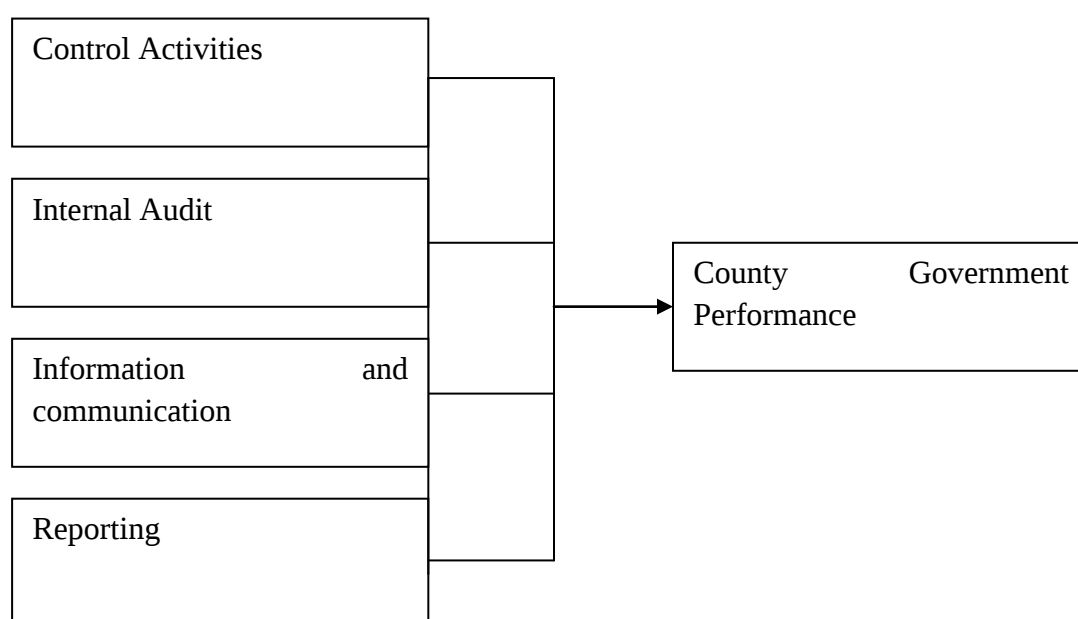
2.5 Conceptual Framework

Independent Variable

Dependent Variable

Internal Control

County Government Performance



2.6 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

Research methodology entails a research problem solving in as systematic way (Kothari, 2004). This chapter, therefore, explored how the research was carried out, presenting the several methods to be used by researcher in collection, analysis, presentation and discussion of findings. This include, research design, target population, design of samples data gathering tools and procedures and data analysis.

3.2 Research Design

According to Burns and Grove (2003) a research design is a layout there to make sure that study conducted is under constrained factors so as to improve findings validity and minimize interference. The study was a descriptive study and utilized primary data which Burns and Grove (2003), saw as providing a natural picture of a situation. The research involved administering of questionnaires to the county administrators in Kenya. The aim is to collect data on management opinion on the relationship of internal controls and performance of county governments in Kenya to answer the research objectives.

3.3 Population

When a field is in inquiry, all items involves there constitute a population (Kothari, 2004). Cooper and Schindler (2008) considers a target group as an overall set of individuals that a researcher will seek information that will be representative of the population at large. The target population included the county administrators in the forty-seven (47) counties in Kenya.

3.4 Data Collection

Primary data was obtained through administering of questionnaires. The questionnaire was divided into three sections. Section (A) possessed information about general firm's features and the respondents; section (B) captured information on management perception on the effect of current strategic changes on performance (C) capture management recommendations. The collected data was analyzed with a view to determine relationship as identified in the conceptual framework.

3.6 Data Analysis

Once the data is collected, it was summarized, coded, classified and tabulated. Data classification reduces data into homogeneous attributes that enabled establishment of meaningful relationships between variables. For measuring and determining data collected association, descriptive and inferential analysis were utilized.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, collected data is interpreted and analyzed based on findings and analysis the study's research methodology set. Collected research data exclusively used questionnaire as the primary tool for research, where the tool was made to coincide with objectives of the study.

4.2 Respondents' Demographic Characteristics

In this section the demographic information of the individual participants and firms is analyzed. This aimed at understanding the respondent's background and their work capability to offer information that is of relevance to the study.

4.2.1 Response Rate

Out of the 47 targeted respondents for data collection, 42 filled in and returned questionnaire. A response rate of 89% which was considered sufficient based on Mugenda and Mugenda (1999) who considered a response rate of over 70% to be excellent and thus usable for analysis and reporting.

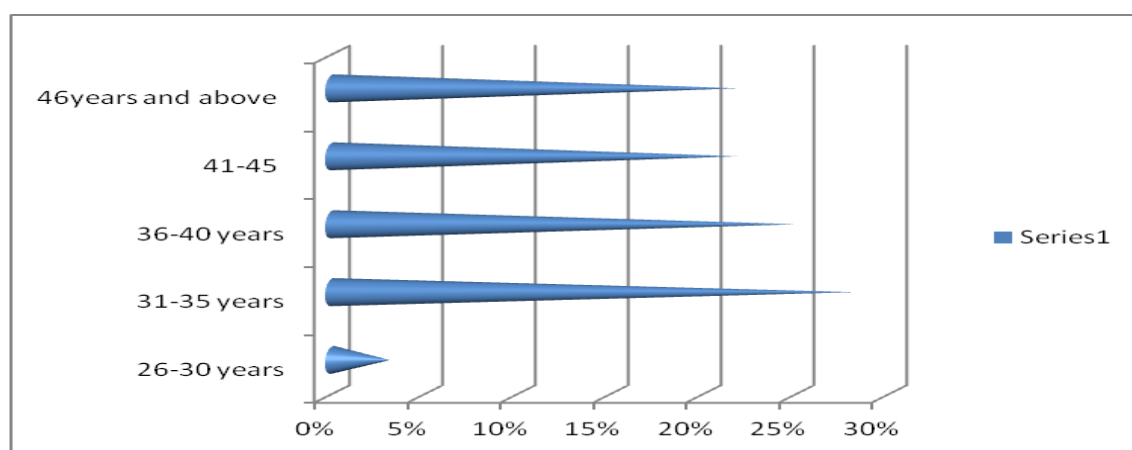
Table 4.1 Response Rate

Target Population	47
Reponses	42
Response Rate	89%

4.2.3 Ages of the Respondents

The study tried to find out the respondents' age bracket. In this study, age was essential since acceptance of age and technology is highly correlated based on the model of technology acceptance. The findings are shown Figure 4.2.

Figure 4.2 Ages of the Respondents



Source: Author(2016)

From the results study found out that 3% of the respondents were aged 26 years to 30 years, 22% were aged 41-45 years, 25% were aged 36-40 years, 28 % were aged 31-35 years, and 22% were aged above 46 years. This indicates that the majority of the respondents (28%) were in the age bracket of 31-35 years. This implies that respondent population is a young population that has critical undertaking of internal control procedures

4.2.4 Length of Time employed in the public service

The researcher tried to identify the length of time the respondents had worked in the Public service. The length of time is an indication of the respondents understanding of government financial reporting and internal control procedures

Table 4.2 Length of Time in the Public service

1 - 2 Years	5	12%
3 - 5 Years	20	48%
6 - 10 Years	12	29%
11 - 15 Years	5	12%
16 - 20 Years	0	0%
21 - 25 Years	0	0%
Over 25 years	0	0%
	42	100%

The findings in table 4.2 indicate that 12% of the respondents had worked in the public service for 1 - 2 years. 48% had worked in the Public service for 3-5 years, 29 % for 6-10 years, and 12% for 11-15 years. This indicates that majority of the respondents have been in the public service for less than 10 years which is an indication that County governments in Kenya is arguably a recent concept in Kenya. The study concludes that the length service is significant for the respondents to make relevant contributions to this study.

4.2.5 Highest Level of Education

The researcher opted to identify respondents highest level of education. Level of education is a good indicator of the respondent's ability to comprehend internal control practices that this study seeks to find out. The findings are shown in Table 4.3.

Table 4.3 Highest Level of Education

Level of Education	Frequency	percentage
O level	1	3%
Undergraduate Degree	37	88%
Postgraduate Degree	4	9%
Other (Specify)	0	0%

The findings in Table 4.3 indicate that most of the respondents (88%) indicated that they had undergraduate degrees; while 3% were O level 9 % had post graduate qualifications. This indicates that majority of the study respondents had the necessary academic qualification for them to be able to comprehend the concept of internal control practices.

4.3 Internal Control Practice

The study sought to identify internal control practices adopted by County governments in Kenya findings on practices are listed in the below subsections.

4.3.1 Internal Audit practices

In order to determine the relationship between internal control practices and performance by County Governments The researcher sought to find out the extent of implementation internal audit practices. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below.

Table 4.4 Internal Audit practices

Internal Audit practices	Mean	Std. Deviation
Our county has an internal audit department	4.6429	.48497
Internal audit or makes appropriate recommendation for management to improve	4.1190	.80251
Internal audit report address weaknesses in our internal control system	4.0714	.86653
Internal audit staff conduct regular audit activities in our county	3.9048	.95788
Internal audit department visits up-county centers often times	3.8810	.73923
Internal audit report are produced regularly	3.8571	.89909
Management discusses internal audit report frequently	3.6190	.96151
Internal auditor performs his duties with a greater degree of autonomy and independence from management	3.4286	1.23254
Internal auditor issues up-county report regularly	3.3571	.85029
Our internal audit is sufficiently staffed	3.1429	1.00174

The respondents strongly agreed that the counties have internal audit department as indicated by the mean of 4.6429. The respondents agreed that Internal audit makes

appropriate recommendation for management to improve as indicated by the mean of 4.1190 they also agreed that Internal audit report address weaknesses in internal control system as indicated by the mean of 4.0714,that Internal audit staff conduct regular audit activities in the county as indicated by the mean of 3.9048, that Internal audit department visits up-county centers often times as indicated by the mean of 3.8810,that Internal audit report are produced regularly as indicated by the mean of 3.8571, and that Management discusses internal audit report frequently as indicated by the mean of 3.6190.

The respondents were not sure whether Internal auditor performs his duties with a greater degree of autonomy and independence from management as indicated by the mean of 3.4286. They were also not sure whether Internal auditor issues up-county report regularly as indicated by the mean of 3.3571 and they were neither sure whether internal audit is sufficiently staffed as indicated by the mean of 3.1429.

4.3.2 Reporting Activities

The researcher sought to find out the extent of implementation of reporting activities . The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below

Table 4.5 Reporting Activities

Reporting Activities	Mean	Std. Deviation
Employees communicate appropriately to their supervisors	4.3571	.61768
Employees are accountable for their role	4.1667	.53723
Periodical meeting is held to discuss progress of activities	4.0952	.65554
The county has a reporting mechanism to its stakeholders	3.9762	.74860
Timely feedback is given to employees	3.9286	.60052
Employees submit weekly reports	3.9286	.89423
Employees appraisals are carried out periodically	3.7857	.71689
Valid N (list wise)		

The respondents strongly agreed that employees communicate appropriately to their supervisors as indicated by the mean of 4.3571. They agreed that employees are accountable for their role as indicated by the mean of 4.1667, that periodical meeting are held to discuss progress of activities as indicated by the mean of 4.0952, that the county has a reporting mechanism to its stakeholders as indicated by the mean of 3.9762, that timely feedback is given to employees as indicated by the mean of 3.9286, that employees submit weekly reports as indicated by the mean of 3.9286, that employees appraisals are carried out periodically as indicated by the mean of 3.7857.

4.3.3 Control Activities

The researcher sought to find out the extent of implementation of control activities.

The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below.

Table 4.6 Control Activities

Control Activities	Mean	Std. Deviation
Our county has clear sepa of roles	4.5238	.50549
There is appropriate supervision by senior staff on the work of their juniors	4.1429	.56618
Department have budget reviews where actual expenditure is compared with budgeted expenditure and explanations	4.1429	.75131
Our security system identifies and safeguard County Assets	4.0238	.74860
Our County has well-developed Chart of Account	4.0000	.82639
Corrective action is taken to weaknesses	4.0000	.73252
It is impossible for one staff to have access to all valuable information without the consent of senior staff	3.8333	.96061
Staff are trained to implement the accounting and financial management system	3.7619	.93207
Every employee's work check on the others	3.7619	.75900
Controls are in place to exclude incurring expenditure in excess allocated funds	3.6190	1.18841
Valid N (listwise)		

The respondents strongly agreed that the county has clear separation of roles as indicated by the mean of 4.5238. They agreed that senior staff was appropriately supervised on juniors' work as indicated by the mean of 4.1429 that departments have budget reviews where there is comparison of actual expenditure with budgeted expenditure and explanations as indicated by the mean of 4.1429 that security system identifies and safeguard County Assets as indicated by the mean of 4.0238, that County has well-developed Chart of Account as indicated by the mean of 4.0000.

That Corrective action is taken to weaknesses as indicated by the mean of 4.0000 that for a staff to access any valuable information, consent of senior staff is fundamental as indicated by the mean of 3.8333, Staff are trained to implement the accounting and financial management system as indicated by the mean of 3.7619 that Every employee's work check on the others as indicated by the mean of 3.7619 that the existence of controls is to exclude expenses that are incurring in allocated funds in excess as indicated by the mean of 3.619.

4.3.4 Information and Communication Practices

The researcher sought to find out the extent of implementation of information communication practices. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree, 2= Disagree, 3= Not sure, 4= Agree, 5= Strongly agree. The findings are presented in the table below

Table 4.7 Information and Communication Practices

	Mean	Std. Deviation
The county promotes its services through the website	4.4048	.58683
The county encourages E procurement	4.3571	.72655
The County has an active website	4.2619	.62701
County employees are IT literate	4.0000	.98773
Department of the county are automated	3.8333	1.10247
County employees submit report through online to their immediate supervisors	3.7381	.85709

The respondents agreed that The county promote its services through the website as indicated by the mean of 4.4048,that The county encourages E procurement as indicated by the mean of 4.3571,tha The County has an active website as indicated by the mean of 4.2619,that the County employees are IT literate as indicated by the mean of 4.0000,that Departments of the county are automated as indicated by the mean of 3.8333,that County employees submit report through online to their immediate supervisors as indicated by the mean of 3.7381.

4.4 Effect of Internal Controls Practices on Performance

The researcher sought to find out the effect of implementation of internal control practices on performance. The mean is the representation of the majority opinion of the respondents in reference to the likert scale data which 1= Strongly disagree,2= Disagree ,3= Not sure,4= Agree,5= Strongly agree. The findings are presented in the table below

Table 4.8 Effect of internal controls on performance

Effect of internal controls on performance	Mean	Std. Deviation
The County's asset base has greatly increased overtime	3.3333	1.02806
Our County's Accounting system adequately identifies the receipts and expenditure of grand contracts	3.1429	1.09481
The levies collected by our county is appropriate to cover the cost of running the courses	2.6905	1.19935
All levies are dully collected	2.6429	1.22617
Outstanding levies are dully paid in time	2.5000	1.08762
Our County has enough cash to meet its obligations effectively [as and when they fall due]	2.5000	1.08762

The findings indicate that the respondents were nor sure whether the adoption of internal control practices has led to The County's asset base greatly increasing

overtime as indicated by the mean of 3.3333.ther respondents were neither sure if the County's Accounting system adequately identifies the receipts and expenditure of grand contracts as indicated by the mean of 3.1429,they were neither sure if adoption of internal control practices has led to the adequacy of The levies collected by county to cover the cost of running the courses as indicated by the mean of 2.6905.they were neither sure if adoption of internal control practices has led to All levies being dully collected or paid as indicated by the mean of 2.6429 and 2.5000.They were neither sure if as a result of such implementation the County has enough cash to effectively comply with obligations [as and when they fall due] as indicated by the mean of 2.5000.

4.5 Discussions of the Findings

The findings indicate that the respondents strongly agreed that the counties have internal audit department. They agreed that internal audit makes appropriate recommendation for management to improve ,that internal audit report address weaknesses in internal control system ,that internal audit staff conduct regular audit activities in the county, that internal audit department visits up-county centers often times, that internal audit report are produced regularly, and that management discusses internal audit report frequently .the respondents were not sure whether internal auditor performs his duties with a greater degree of autonomy and independence from management. They were also not sure whether internal auditor issues up-county report regularly and they were neither sure whether internal audit is sufficiently staffed.

The respondents strongly agreed that employees communicate appropriately to their supervisors. They agreed that employees are accountable for their role, that periodical meeting are held to discuss progress of activities, that the county has a reporting mechanism to its stakeholders, that timely feedback is given to employees, that employees submit weekly reports, that employees appraisals are carried out periodically .the respondents strongly agreed that the county has clear sepa of roles .they agreed that there is appropriate supervision by senior staff on the work of their juniors and that departments have budget reviews where there is comparison of budget expenditure and explanations, that security system identifies and safeguard county assets and that county has well-developed chart of account.

The respondents agreed that that corrective action is taken on weaknesses, that for any staff to access any valuable information, s/he must have the senior staff consent that staff are trained to implement the accounting and financial management system that every employee's work check on the others and that controls are in place to exclude incurring expenditure in excess allocated funds. The respondents agreed that the county promote its services through the website, that the county encourages e procurement, that the county has an active website, that the county employees are it literate, that departments of the county are automated, that county employees submit report through online to their immediate supervisors.

The findings indicate that the respondents were not nor sure whether the adoption of internal control practices has led to the county's asset base greatly increasing overtime. her respondents were neither sure if the County's Accounting system adequately identifies the receipts and expenditure of grand contracts, they were neither sure if adoption of internal control practices has led to the adequacy of the levies collected by county to cover the cost of running the courses. They were neither sure if adoption of internal control practices has led to all levies being dully collected or paid. They were neither sure if as a result of such implementation the County has enough cash for effective compliance with set obligations as and when they fall due. This is therefore an indication that internal control practices in the county governments has not let to improved performance at the county level

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary, conclusion and recommendation will be presented. While the first section (5) is about main outcomes based on research finding the other sections tackles the conclusions obtained and recommendations based on the research findings. Lastly there are two more sections which addresses study limitations and future research suggestions.

5.2 Summary of the Findings

The study objectives aimed at establishing the effect of internal control practices on performance in County governments in Kenya. Out of the 47 targeted participants in data collection, 42 effectively responded entailing an 89% response rate. According to study results, respondents aged 26 years to 30 years were 3%, those of 41 to 45 years were 25%. There were 25% and 28% of respondents aged years 36-40 and 31-35 respectively. Those above 46 years were 22%, indicating that 28% of the of ages 31-35 years. This implies that respondent population is a young population that has critical undertaking of internal control procedure

12% of the respondents had worked in the public service for 1 - 2 years. 48% had worked in the Public service for 3-5 years, 29 % for 6-10 years, and 12% for 11-15 years. This indicates that majority of the respondents have been in the public service for less than 10 years which is an indication that County governments in Kenya is arguably a recent concept in Kenya. The study concludes that the length service is significant for the respondents to make relevant contributions to this study. Most of

the respondents (88%) indicated that they had undergraduate degrees; while 3% were O level qualifiers while 9 % had post graduate qualifications. This indicates that majority of the study respondents had the necessary academic qualification for them to be able to comprehend the concept of internal control practices.

The respondents strongly agreed that the counties have internal audit department. They agreed that improvement of management requires appropriate recommendation that Internal audit report points out internal control system weaknesses, that Internal audit staff conduct regular audit activities in the county, that Internal audit department visits up-county centers often times, that Internal audit report are regularly produced, and that Management discusses internal audit report frequently .The respondents were not sure whether Internal auditor performs his duties with a greater degree of autonomy and independence from management. They were also not sure whether Internal auditor issues up-county report regularly and they were neither sure whether internal audit is sufficiently staffed.

The respondents strongly agreed that employees communicate appropriately to their supervisors. They agreed that employees are accountable for their role, that periodical meeting are held to discuss progress of activities, that the county has a reporting mechanism to its stakeholders, that timely feedback is given to employees, that employees submit weekly reports, that employees appraisals are carried out periodically .The respondents strongly agreed that the county has clear separation of roles .They agreed that there is appropriate supervision by senior staff on the work of their juniors and that Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations, that security system

identifies and safeguard County Assets and that County has well-developed Chart of Account.

The respondents agreed that That Corrective action is taken on weaknesses, that a staff must consent with the senior staff if s/he has to access any valuable information, that Staff are trained to implement the accounting and financial management system that Every work check of employee on the others and that Controls are in place to exclude incurring expenditure in excess allocated funds .The respondents agreed that The county promote its services through the website, that The county encourages E procurement, that The County has an active website, that the County employees are IT literate, that Departments of the county are automated, that County employees submit report through online to their immediate supervisors.

The findings indicate that the respondents were not nor sure whether the adoption of internal control practices has led to The County's asset base greatly increasing overtime. her respondents were neither sure if the County's Accounting system adequately identifies the receipts and expenditure of grand contracts, they were neither sure if adoption of internal control practices has led to the adequacy of The levies collected by county to cover the cost of running the courses. They were neither sure if adoption of internal control practices has led to All levies being dully collected or paid. They were neither sure if as a result of such implementation the County has adequate cash that enables meeting of obligation effectively as and when they fall due. This is therefore an indication that internal control practices in the county governments has not let to improved performance at the county level

5.2 Conclusions

A conclusion was made in concurrence with study findings that the County Governments in Kenya have adopted internal control practices but the adoption of such practices has not fully led to improvement of performance in county governments. This could be as a result of the fact that county governments are a relatively new concept in Kenya and that internal control practices in existence are just structural and not contextual and have not been strengthened by the experience of time and continued evaluation. The balance between political influence and independence of internal control practices has not been achieved. This is because there currently exists no corporate governance principle tailor made for a politically elected system and the application of such principles without the risk of politics.

5.3 Recommendations of the Study

There should be strengthening of internal control system like internal audits, reporting, control of activities, information and communication and risk assessment if the benefits associated with adoption of internal control systems are to be realized by the county governments in Kenya. The auditing of the county governments by the Auditor General does not seem to give a clearer picture of business processes management and the application of corporate ethics and principles to county governments operation as it does to expenditure accountability. The audit processes seem to only look at the expenditure against approved value. Auditing should further assess if there is value for money in projects undertaken and the justification for various projects undertaken 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.

Country government employees and leadership should be trained on effective internal control practices. Consequently, a mechanism for separating political influence from the day to day internal control practices should be established if the integrity of such institutions is to be achieved. This training the country government's leadership and employees on the application of corporate governance principles in a political, social and economic environment like the county governments.

5.4 Limitations of the Study

The study's limitations included limited time set aside for the research. The reluctance of the participants to provide information was a challenge as they were in fear that the sought information sought would be used by the antifraud agencies or the Kenya anti-corruption commission. Through showing a letter of introduction from university, the researchers managed to handle the situation as it acted as an assurance of the respondents confidentiality of information provided and that it was meant for academics. The study time was limited hence exhaustive and extremely comprehensive research could not be carried out. The study, however, minimized these by conducting in-depth analysis that significantly covers the shortcomings of the study. Further, the data was tedious to collect as the respondents were diversified across the county governments.

5.5 Recommended areas of Further Research

Future studies should be undertaken to evaluate the existence of value for money in county government projects and compensation scheme. This is due fact that there is an existing hypothesis that most projects undertaken by the county governments have not been utilized and that the current compensation package for county governments elected leaders and employees is excessive. There should also be a survey study on the impact of the county system of government on income, poverty level and living standards of county residents who are not direct employees of the county.

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APPENDIX I: 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

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

INTERNAL AUDIT	STRONGLY AGREE (5)	AGREE(4)	NOT TRUE (3)	DISAGREE (2)	STRONGLY DISAGREE(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 audit or 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					

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

REPORTING ACTIVITIES	STRONGLY AGREE (5)	AGREE(4)	NOT TRUE (3)	DISAGREE (2)	STRONGLY DISAGREE (1)
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					

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

CONTROL ACTIVITIES	STRONGLY AGREE [5]	AGREE [4]	NOT TRUE [3]	DISAGREE [2]	SRONGLY DISAGREE [1]
Our County has clear sepa 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 t weaknesses o					
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					
Our security system identifies and safeguard County Assets					

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

INFORMATION AND COMMUNICATION PRACTICES	STRONGLY AGREE [5]	AGREE [4]	NOT TRUE [3]	DISAGREE [2]	STRONGLY DISAGREE [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					

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

FINANCIAL PERFORMANCE	STRONGLY AGREE [5]	AGREE [4]	NOT TRUE [3]	DISAGREE [2]	STRONGLY DISAGREE [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 II: List of County Governments in Kenya

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