EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF SUPERMARKETS IN KAJIADO COUNTY

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other institution.

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This research project has been submitted for examination with my approval as the candidate's supervisor.

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DEDICATION

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LIST OF ABBREVIATIONS

COSO	Committee of Sponsoring Organizations
CPA	Certified Public Accountants
ICS	Internal Control Systems
IIA	Institute of Internal Auditors
MVA	Marketer Value Added
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
VFM	Value for Money

ABSTRACT

Across the world, most organizations are report misappropriation of funds. This has resulted to negative effect on organization performance forcing the management to seek for control measure through internal controls systems. The general expectation is that institution and authorization of legitimate internal control systems will dependably prompt to strides made on financial performance. An effective internal control framework has a fundamental part to play in a company's prosperity. In Kenya, there has been cases of theft and collapse of supermarkets such as Uchumi supermarket. Data available from World Bank showed that there was the decline in service in all sectors of the economy including supermarket. Poor financial performance of listed companies adversely affects the economic growth of the Kenyan economy. Thus the current study aimed to establish the effect of internal control systems on financial performance of supermarket in Kajiado County. The target population of this study was 66 different supermarkets operating within Kajiado County. The study employed Mugenda and Mugenda formulae to come up with a sample size of 39 supermarkets. The study relied on primary data which was collected using a structured questionnaire. Data collected was coded and entered to Statistical Package for Social Sciences (Version 22.0). Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables and dependent variable. From the findings, the study found that most organizations have set their objectives while independent audit committee and management act with a great degree of integrity in execution of their roles. The study established that there is an on-going and reconciliation of all accounts in most also organization. Further, the study established that organizations assess ethics and values within the organization. The study found that assessment of risks, monitoring procedures, supervisory activities, environmental management and system of verification on reconciliation influence financial performance to a great extent. The study established that presence of higher number of independent directors in the board enhances the decision credibility and objectivity. The study recommended that risk assessment should be led at the level of individual organizations and over the wide range of exercises and auxiliaries of the solidified association. The study concludes that management attitude should be committed to ethical business practices and follows the established control procedures. Internal control ought to be all the time survey in all parts of their organization and embed external controls that will reinforce the organization and improve profits. The study recommends that management should ensure that applicable measures are applied to enhance internal audit practices within the organization that depicts picture of the financial position of the organization without coercion from the management. Finally, the study recommends that supermarkets should apply the best practices of governance to ensure that the interest of management and shareholders are safeguarded and that they do not conflict the objective of the organization.

CHAPTER ONE

INTRODUCTION

1.1 Backgrounds to the Study

Over the last two decade, studies conducted in different companies across the world have indicated an increase in misappropriation of funds. This has had a negative effect on owners, employees and other stakeholders have brought into focus on the significance of internal controls. Internal Controls is processes developed and influenced by people mandated with governance, management, and other staff to offer rational warrant in regards to the accomplishments of institutional ambitions on the authenticity of financial reporting, operations effectiveness, efficiency and conformity with befitting codes and regulations (Mwindi, 2008). Internal controls encompass a set of rules, policies and procedures implemented by an organisation to offer assurance on the reliability of its reports, effectiveness and efficiency of its operations and the compliance and compatibility of their activities with laws and regulations (Tunji, 2013). Internal control was defined as systems driven by an organisation's board of Directors, staff and stakeholders and developed to create reasonable assurance on the achievement of objectives objective (COSO, 2013).

Risk assessment, information and communication, control environment and control activities and monitoring are among the five key elements of internal control systems against which the audit should happen (COSO 2013). The general expectation is that institution and authorization of legitimate internal control systems will dependably prompt to strides made on financial performance. The COSO (2013) framework found that properly instituted systems of internal control boost solid reports which promote the accountability capacity of administration of a company and also improve the reporting process. Internal controls are upheld to warrant safe keeping of all companies' assets; to avert misuse or mismanagement of equity and to detect and safeguard company's resources against probable frauds.

Firms which have recently experienced structural transformation will witness improved weakness in reporting internal control and more complex operations and are at increased exposure to accounting risks and have fewer assets to put resources into internal control, Ashbaugh-Skaife, Collins, Kinney, and Lafond (2008). Furthermore, Doyle, Ge, and McVay (2005) notes that companies faced by material weaknesses have a lesser income quality as compared to those that don't report material weaknesses. Additionally, Hammersley, Myers, and Shakespeare (2007) demonstrated a negative market response to firms that had announced material weaknesses in internal control.

1.1.1 Internal Control Systems

The COSO (2013) Framework describes Internal Control system as procedures influenced by company's owners and management, intended to give reasonable affirmation with respect to the accomplishment of objectives identifying with operations, reporting, and compliance. An institution resonance, which affects the control consciousness of its staff, is buckled down by the control environment. The Committee of Sponsoring Organizations (COSO, 2013), study portrays this element as the justification for every other integrals of internal control, offering both structure and discipline to the organization. Risk Assessment, Control environment, information and communication, monitoring and control activities are the major elements of a control system against which the review should happen as pointed out by the COSO (2013). Internal control systems work at distinct effectiveness levels.

Establishing the effectiveness of a specific internal control system is a conclusion emanating from an evaluation of the availability and working state. Internal control involves five parts; the internal environment audit practices, the risk assessment, advanced information communication systems, control activities and audit monitoring controls (Hayes, 2005). Internal auditing is a professional and movement required in prompting associations with respect to how to better accomplish their goals through overseeing dangers and enhancing internal control. Internal auditing involves the utilization of a systematic methodology for analysing business processes or organizational problems and recommending solutions. The main role of the internal audit practices is to ensure that administration official controls are being connected in successful way (Cai, 2007). Effective controls give guaranteed affirmation in line with the achievement of built up objectives. Feng and McKay (2009) the quality of a company’s internal control system has the huge effect on the certainty of leadership instructions. Similarly, companies that display internal controls system that is ineffective got larger chances of experiencing mismanagement in operation than those organizations that report viable internal controls system.

Schneider and Church (2008) in their study stated that effective internal controls systems are key contributors to achieving quality. In the same line, an effective internal control framework has a fundamental part to play in a company's prosperity (Jokipii, 2010). When some certain processes are taken up by the management, then effective internal control system operates, plans, the division of responsibilities, safeguarding of equity, arithmetic and accounting controls, competence of staff, recording and record keeping, supervision, authorization and approvals, vocation and rotation of duties, cost feasibility, routine and automatic checks as classified by International Accounting Standards is what comprises internal controls (Kaplan, 2008). The studies above hugely support that effective internal controls significantly contribute to the financial performance of companies.

1.1.2 Financial Performance

The concept of financial performance refers to the degree of organisation's policies and operations in budgetary forms. In general, it is a measure of a company's general economic health of a given duration of time and can be adopted to correlate similar companies operating in the similar industry or to juxtapose industries or sectors in one basket. There are multiple methods to evaluate how an entity is performing financially. Which may be indicated in the organisation's return on assets (ROA), return on investment (ROI), value added, and others being a subjective evaluation of how a company can utilize equity from its basic mode of enterprising and make revenues (Mishkin, 2007). A positive company financial performance can be gotten by getting rid of misuses in benefits services processes and systems. A firm "critical success factor" is how much it fulfils its objectives and mission in line to be effective, efficient and economical.

A report on a company's performance on the financial aspect and position that is important to a broad diversity of users for assessing the stewardship and making business decisions is made from the information gotten from any valid internal control system as depicted by financial (Davies, 2005). Value for Money (VFM) since internal control systems are very contributory in achieving the company's mission and objectives set. The main logic to VFM is the internal controls needs that business equity like plant and machinery, equipment should be safeguarded, and access should be limited to authorized personnel. An internal audit department is a key requirement for any firm to comply with the internal regulations and processes. Most companies put this effort with the goal of achieving performance that is positive. Regardless all these moves, companies still face problems with liquidity, late financial reporting, inefficiency in accounting for the organisation's money, theft and misappropriation of the organisation's resources as well as wrong decisions leading to unexpected results. It is because of this observation that the current study aims to investigate how the financial performance of supermarkets in Kenya is affected by internal control systems.

1.1.3 Internal Control System and Financial Performance

Internal Audit has turned into a key administration instrument for accomplishing powerful control in both public and private organization (Udu, 2006). Internal auditing serves as a vital connection in the business and budgetary reporting procedures of partnerships and not-revenue driven associations. The point of internal review is to enhance hierarchical proficiency and adequacy through useful feedback. Internal Auditing has four primary segments: viz; check of composed records, investigation of approach, assessment of the rationale and fulfilment of methods, internal management and staffing to guarantee they are proficient and proper for the organization strategies; and reporting suggestions for enhancements to administration.

Most internal audit experts contend that a compelling inner review work connects with enhanced money related execution. As indicated by Beyanga (2011), a viable internal review management can, specifically, decrease overhead, distinguish approaches to enhance effectiveness and expand introduction to conceivable misfortunes from deficiently defended organization resources all of which can significantly affect the execution of an organization. The Internal environment control practices are the establishment of the five components in the inner control system. Its assignment and operation influence the venture' general action, as well as the other four components. In this way control environment specifically influences the impact of execution of interior control system and the advanced ventures ought to build up a reasonable internal environment control (Eden, 2006).

Most internal audit experts contend that a compelling internal control work connects with enhanced financial performance objectives. As indicated by Beyanga (2011) a viable internal control can, specifically, decrease overhead, distinguish approaches to enhance effectiveness and expand introduction to conceivable misfortunes from deficiently defended organization resources all of which can significantly affect the execution of an organization. Saren and De Belde (2006) pointed that when an organization seeks after respectability and clear moral qualities reflected in a formal set of principles/morals, the internal audit capacity will take a more noteworthy significance. Inside control frameworks add to administrative adequacy as well as vital obligations of corporate directorate. Bookkeeping writing in like manner underlines the significance of an association's respectability and moral values in keeping up a powerful control.

Organizations understand risk and need valuing the significance of hazard administration to an association. Great corporate administration codes require the board to introduce an arrangement of hazard administration and educate their shareholders regarding this framework (Pickett, 2003). An organization cannot get smaller its way to approach to extent. It must create, and one of the keys to fruitful development is compelling danger administration. Chance affects an association's capacity to contend and to keep up its money related quality and the nature of its items and administrations. It is the interior examiner's business to recognize all auditable exercises and important hazard figures and to evaluate their noteworthiness.

Control activities are the internal control structures ought to be watched - a system that assesses the way of the structure's execution after some time. Constant watching happens in the ordinary course of operations, and joins reliable organization and supervisory activities, and diverse moves staff make in playing out their commitments that assess the way of inside control system execution (Colbert and Bowen, 1996). The expansion and repeat of specific evaluations depend basically on an examination of perils and the feasibility of advancing checking systems (Anduuru, 2005). After some time these internal control systems do change (Dumitrescu, 2004). The way controls are associated may progress once suitable frameworks can end up being less convincing a direct result of the arrival of new staff, fluctuating sufficiency of planning and supervision, time and resources necessities, or additional weights. Also, conditions for which within control structure was at first sketched out furthermore may change. In light of advancing conditions, organization needs to make sense of if the inside control system continues being correlated and prepared to address new dangers (Roth, 1997).

The necessity to maintain a good system of internal control in a firm in order to manage the risks that the firms is prone to is highlighted in the code of corporate governance. Internal audit can play a major role in monitoring and evaluating internal control policies and procedures. Implementation of strong internal controls which contain different components of control such as the control environment, risk assessment, control activities, information and communication and monitoring can contribute significantly to the achievement of the firm's objective of making profit and generating income.

1.1.4 Supermarket Businesses in Kajiado County

Organizations can gain a lot from strong internal controls in reducing possible fraud usually caused by employee theft and customer shoplifting. Higher shrinkage is more associated with smaller businesses than large firms. An unpleasant component of business is that some vendors, some customers shoplift and suppliers overcharge and short-count on deliveries, some and employees embezzle or steal assets and some managers commit fraud against the business or take personal advantage of their position of authority in the business. Supermarkets business particularly is a natural target for fraudulent schemes, scams, employee embezzlement, pilferage, worker crime, and theft. Even a relatively small business handles a lot of money, holds valuable assets, and deals with a lot of people a perfect mix for bad things to happen. To protect against these threats, a small business should put into place and vigorously enforce internal controls. Various precautions are established to prevent, or at least to minimize losses from all types of dishonesty against the business from within and without.

In Kenya, there has been cases of theft and collapse of supermarkets such as Uchumi supermarket. With respect to employee theft alone, Walsh (2000) noted that billions of dollars are lost and stolen annually from businesses through this means. This escalation in fraudulent activities, resulting in some cases to company failure with disastrous effects for shareholders, employees and other stakeholders has brought into sharp focus the importance of internal controls for companies. Such controls not only minimize the incidence of fraud within companies, but also enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. In effect, internal controls are utilized to keep the company on course toward profitability goals, achievement of its mission, and to minimize surprises along the way.

Kajiado County has at least 66 supermarkets operating across the county, with majority of them operating in Rongai, Kitengela, Ngong and Kajiado town. Most of the supermarkets have branches within the county and others across the country. This is a clear indication that they are performing well; however, there is no statistical data that may support this performance.

1.2 Research Problem

The effectiveness of internal control on financial performance ought to be viewed as very vital in every company since preventing and detecting theft is a duty of internal controls. Internal controls are installed in place to assure the safety of all assets; to maintain a strategic distance from misuse or mismanagement of the company's assets and to detect and protect against probable theft. Every company ought to have an administration of the most elevated capabilities, dedication, and calibre from the first day. The administration ought to meet frequently to review the issues of the company and to guide the strategic path of the company and additionally guarantee progress to achieving objectives (Reid & Smith, 2000). Systems in a manufacturing company are expected to experience evolution as time passes, and each one of units and departments of the company should go through positive changes. The company ought to also hire world-class staff to work in all the keys units and departments. This should probably be overseen by the availability of straightforward and open arrangement of determination and enrolment assisted by a well empowered Human Resource Department. All offices and units should be adequately staffed. The company's records and accounting systems should be refined and be audited by professionally trained and recognized reputable and auditors (Chenhall, 2013).

In Kenya, data available from World Bank (2014) showed that there was the decline in service in all sectors of the economy including supermarket. Poor financial performance of listed companies adversely affects the economic growth of the Kenyan economy. Most companies have functional internal audit department responsible for providing management with assurance that these internal control systems are enough furthermore, nature of administrations is set up (Institute of Internal Auditors, 2009). However, there is a continued financial performance that is poor, where budgets are not keenly followed, rules and regulations, is not adhered to with a lot of financial auditing, Auditor General (2008). This has put organizations at danger of money related insufficiency, employee disappointment and poor monetary performance (Mikes & Kaplan, 2014).

Studies done in relating to internal control systems and financial performance in Kenyan fails to show the correlation in firms. For instance, a study carried out by Wanjara, (2014) on how financial performance is influenced by internal control system at Kenya Power Company. Kamau, (2013) studied the impact of internal controls on Kenyan manufacturing companies financial performance. However, no research has focused on the supermarkets business. It is this realization that this research study aims to investigate the correlation between internal control systems and the financial performance of supermarkets businesses despite vital role played by the internal control systems in an organization. The study aimed to respond to the following questions, what are the internal control systems adopted by supermarkets? What are the effects of internal control system adopted by supermarkets on their financial performance?

1.3 Objective of the Study

To establish the effect of internal control systems on financial performance of supermarket in Kajiado County.

1.4 Value of the Study

Future researchers and academicians undertaking studies related to this will find this study of great interest. This is because it adds up to their content on internal control and also offers the fundamental data to be incorporated into their work.

The study additionally assists them to develop better recommendations on internal control systems furthermore, their effects on financial performance of manufacturing firms. The conclusions of the study are important to supermarkets since they call attention to the zones overlooked in the internal control frameworks and additionally the methods for enhancing the nature of the internal control system. Furthermore, the study helps to instil logical and inductive considering what's more, advances the advancement of coherent propensities and thinking by all staff in the organization.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the literature advanced in the area of internal control systems on firm financial performance. The chapter starts by reviewing various theories relevant to this study. The theories include: the systems theory, the agency theory and institutional theory which form the basis of the concept of internal control systems. To assist in identification of existing gaps in the literature, empirical literature was reviewed in this chapter. A conceptual framework is also presented to indicate the relationship between independent and dependent variable.

2.2 Review of Theories

Internal audit and financial performance have been the reason behind the development of different theories. Below is a discussion of these theories which system theory, agency theory and institutional theory.

2.2.1 Systems Theory

As cited in Keraro (2014) the theory was propounded in the 1940s by Ludwig von Bertalanffy (biologist) and advanced by Ross Ashby in his study ‘introduction to Cybernetics in 1956. Bertalanffy (1968) keenly noted that real systems were interested in, and collaborate with their surroundings additionally they can secure subjectively new properties through development, bringing about constant advancement. He argued that this theory focused on the arrangement of and the correlation between the parts which connect them into a whole instead of reducing a company or an organization to the properties of its departments or units. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research, and development). Underling the different disciplines, providing a basis for their unification are the same concepts and principles of organization.

Hartman (2010) observation was that systems theory enlightens a leader with a clear picture on how to analyse the environment in which the organization is operating without giving a particular theory about how an organization should be run. He also observed that with the acknowledgment of systems theory, all associations comprise of preparing data sources and yields with interior and outer frameworks and sub-frameworks accommodating in giving a useful outline of any association. Smit and Cronje (2002) observed that a framework is an accumulation of parts bound together to finish a general objective. When a unit of the system is omitted, the structure of the system also changes.

The effect of the systems theory in an administration is that managers take a gander at the organization from a more extensive point of view. Systems theory has another viewpoint for managers to translate designs also, events in the work environment. They recognize the various components of the organization, and, in particular, the interrelationship of the components, for instance, the coordination of central administration with its programs, supervisors, and workers, among other variables. In customary administration honesty, managers normally took one section and concentrated on it. They then moved every attention to another component. The challenge was that an organization could, for example, have a brilliant central administration and the perfect set of teachers, but the departments didn’t synchronize at all (Rue & Byars, 2004).

In using the systems theory approach, the study recognized that there are many possible roles of governance in the strategic management of companies. Bertalanffy (1968) saw organizations as a composition of its elements which together make a “whole”. The key identifiable institution variables, based on this theory were the people, leadership, structures, processes, resources (human, financial and others), communication systems, position, and power. The systems theory views all these as the parts that, if coordinated strategically, will lead to organization effectiveness. The systems theory upholds the idea that the different parts of an institution should not be managed in isolation. Relating the preceding discussion of the research undertaken, the systems theory thinking helped the researcher to visualize the fact that what may seem as an isolated internal problem is part of an interconnected network of related issues in internal control systems of quoted companies. It is therefore and supports corporate governance.

2.2.2 Agency Theory

Agency theory originated from logicians Stephen Ross and Barry (1970) and authored by Adams (1994). Agency theory describes firms as necessary structures through which, it is probable to discharge internal control which curtails opportunistic behavior of agents. This relationship between the agent and principal is intensified by the principal hiring an expert to keep an eye on the agent (Barlie & Means, (1932). Coarse (1937) backed this view by holding that conflict mitigation between the principal and agents and that the output of the agent is affected by moral hazard and adverse selection is ensured by the controls.

As indicated by studies, agency costs are reduced by internal control system (Akhalik & Barefield, 1993). There is economic allurement on companies to report on internal control (Deumes & Knechel, 2008). Internal controls weaknesses get to be linked to rising in levels of management of earnings (Chan & Ashbaugh, 2008). Morris (2011) in agreement believed that management should create an environment of control to manage earnings. In line with the agency theory Sarens and Abdolmohammadi (2011) adds that a company contains a set of agreements between the owners of capital and managers responsible for utilizing and controlling this capital. In reference to the principal-agent framework most of the work has been conducted. Specifically the work of Jensen and Mecklin (1976) as well as that of Fama (1980) is important. The agency correlation demonstrates where the principal (owner) delegates work to another party; the agent (manager) is pointed out in the Agency theory.

There might be some disadvantages in the Agency Relationship correlating with the advantages or self-benefits of the agent: Take an instance, the agent action not acting where it is to the greatest advantage of the principal or may do so only moderately in the advantage of the principal. A variety of dimensions to this may include, for instance, the agent misusing their power for pecuniary or another benefit, or the agent not taking the right risks in seeking of the principle interests since the agent perceives those risks as being inappropriate while on the other hand, the principal may show different attitudes to risks. Information asymmetry problem may also exist, whereby both the principal and the agent have access to different levels of information; in practice, this means that they all have equal advantages. The theory was therefore very relevant in this study as shareholders who are the owners of the quoted companies have assigned duties to the management team on running of day today activities who are answerable to the shareholders interest and monitoring of the internal control system are very well secured. The theory, therefore, supports the existence of control environment, internal audit and risk management.

2.2.3 Institutional Theory

Meyer and Rowan (1977) and DiMaggio and Powell (1983) are examples of works that led to the origin of this theory. Recently institutional theory has gained influence and provides a contradistinction divergent illustration on the reason why new control structure and practices develop in organizations. There are claims of institutional theory becoming a vital theoretical perception in organization theory and accounting (Dillard, Rigsby & Goodman, 2004). Reasoning both technically and economically for comprehending company management and the structures that get incorporated in and explained at institutions is challenged by Institutional theories. Internal control systems are aimed to introduce new ways of doing work and procedures and they are not required to be seen as rational economic cost-benefits, they are however provide different aspects which indicates that organization develop and design structure and processes.

Institutions by definition refer stability but are subject to change processes, both incremental and discontinuous. Appropriation of organizational practices and environmental arrangement is an institutional process subject to the effect of three pressures or forces coercive, normative and mimetic as suggested by Institutional and neo-institutional theory. This theory also insinuates that these strengths can support organizations to acquire similar strategic actions hence leading to homogeneity of the organizational (Adebanjo, Ojadi, Laosirihongthong & Tickle, 2013).

The interests of shareholders have been e over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure on management to guarantee that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals (Christopher, Sarens & Leung, 2009). This study draws on institutional theory, which basically focuses that organizational management and control structures have a tendency to adjust to social expectations. The theory, therefore, advances the argument for enhanced corporate governance in the management of organizations resources.

2.3 Determinants of Financial Performance of Supermarkets

Jovanovic (2012) bolsters this claim by saying that lone proficient firms remain in the market and that less profitable firms will in the end exit many markets. Performance measures give a component to the organisation to deal with its money related and non-budgetary execution. Accountability is expanded and improved, guaranteeing that ventures bolster the organisational procedure and that better administrations and more prominent fulfilment are given to a client.

Whittington and Kurt (2001) revealed objective performance measures incorporate markers, for example, benefit development, income development, and return on capital utilized. Market Value Added (MVA) was created by financial experts Stern Stewart and Co. It is a measure of the overabundance esteem an organization has given to its shareholders over the aggregate sum of their ventures (John & Morris, 2011). This positioning depends on some conventional aspects of money related performance including all out returns, deals development, benefit development, net edge, and profit for value. Dwivedi (2002) in any case, notices other money related measures to incorporate the value of a long-term investment, financial soundness, and utilization of corporate equity. John and Morris (2011) uses three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS) to explain accounting based performance. Each parameter is arrived at by dividing it by divided net income by total assets, total equity, and total net sales in that order.

2.4 Review of Empirical Studies

Internal control comprises the plan of an organization and all the co-ordinate methods and measures adopted within a business to safeguard its assets check the accuracy and reliability of its accounting data prorate operational efficiency and adherence to prescribed managerial policies. Mawanda (2008) illustrates that there is a general view that organization and enforcement of the right internal control systems will eventually result in financial performance improving. Well adopted systems of internal control adds value to the reporting process and also results in rise of reports that are reliable which adds on the accountability roles of management of a company which is also the general view of the research. One of the obligations of the administration of each public company is preparing reliable financial data. The effective management of the firm's business requires access to timely and accurate information. A good internal control system assists an institution to prevent theft, errors and reduce misuse. Safe-keep of equity becomes better; offering assurance on the credibility, getting rid of mistrusts and contributes to maintaining of adequate and reliable accounting records (Amudo & Inanga, 2009).

Focus on control activities and monitoring using of the analytical approach, Barra (2010) considers the impact of penalties and other internal controls on workers‟ propensity to be crooked”. Both administrative and non-administrative staffs were involved in providing data. The outcomes showed that the accessibility of the control activities, division of obligations, builds the cost of conferring extortion. In this manner, the advantage from submitting misrepresentation needs to balance the cost in a domain of isolated obligations for a representative to confer extortion. Further, it was established that division of roles is a "least-cost" fraud discouragement for non-managerial employees, but for managerial employees, most extreme punishments are the "least-cost" extortion disincentives. The results propose the adequacy of preventive controls exercises, for example, division of obligations is subject to detective controls.

Wainaina (2011) conducted a study examining the internal control function. He revealed that, other than the counteractive action and discovery of extortion, inner controls ought to mirror the quality of the general bookkeeping condition in an association and also the precision of its money related and operational records. Ewa and Udoayang (2012) did an examination to build up the effect of internal control design on financial institutions ‟capacity to examine staff extortion and staff way of life and misrepresentation discovery in Nigeria. Data were collected from 13 Nigerian financial institutions making use of four likert scale point in the research instrument and be analysed using frequency table. The study discovered that Internal control design impacts staff manner towards coercion to such a degree, to the point that a strong internal control mechanism is discouragement to staff extortion while a powerless one opens the framework to misrepresentation and makes open door for staff to submit misrepresentation.

Procasur Africa Report (2012) expressed that poor control systems have prompted colossal speculations lost through extortion and abuse of benefits that are utilized to produce incomes while individuals and organisations have endured huge. Inadequate controls have additionally prompted defilement and conspiracy of administration and external auditors prompting organisations failing to accomplish their set goals. Technological changes have likewise gotten with them challenges control systems and this has required the advancement of better approaches for controlling organizations. In a study conducted by Munene (2013) pointed that battles with liquidity issues, monetary reports are not made auspicious, responsibility for budgetary assets is in pathetic conditions, embezzlement and abuse of institutional assets have been observed and some decisions made have realized any benefits on the projected outcomes.

2.5 Conceptual Framework

Various studies have been done on the link between internal control and financial performance. A study directed by KPMG (2011) established that internal audit review in a firm, contributes impressively to execution change and help in distinguishing benefit prove in corporate fiascos, especially monetary extortion reliably reports a relationship between powerless administration (fewer independent boards or nonattendance of an internal audit system) and the incidence of problems (Beasley, 2000). As such internal audit works as a guard dog and prevent an organization to have misconduct and anomalies subsequently empowering the association to accomplish its destinations of guaranteeing abnormal state of profitability and benefit. Though studies have revealed that there is considerable association between book keeping control frameworks and performance hypothesis, predicts that these organizations will be impacted by external environmental impacts (Greenlay & Foxall, 2012).

Mawanda (2008) conducted a study in Uganda on higher learning institutions on effects of internal control systems on financial performance. The study aimed to examine and establish the link between internal control systems and financial performance in higher learning institution. In this study internal audit, control environment and control activity were used as the measures for internal control system whereas reporting, accountability and liquidity were used as an indicators for financial performance. The researcher was motivated to conduct the study based on reports indicating consistence poor performance as a result of internal control aspects. The study pointed that there is a positive link between internal control activities and financial performance of the institution. The study employed institutional theory which designs an organization in such a way that its functions meet the social expectations and the operations are obvious to public in general, Fogarty (1997) asserted that the primary contribution of the theory of institution is in the understanding of the real achievements of an organization. In any case, the genuine accomplishment of an association and the normal achievements are regularly extraordinary. While structures kept up for correspondence with outcasts don't altogether add to the organization's profits, most associations work with inside procedures that are not generally unmistakable to untouchables.

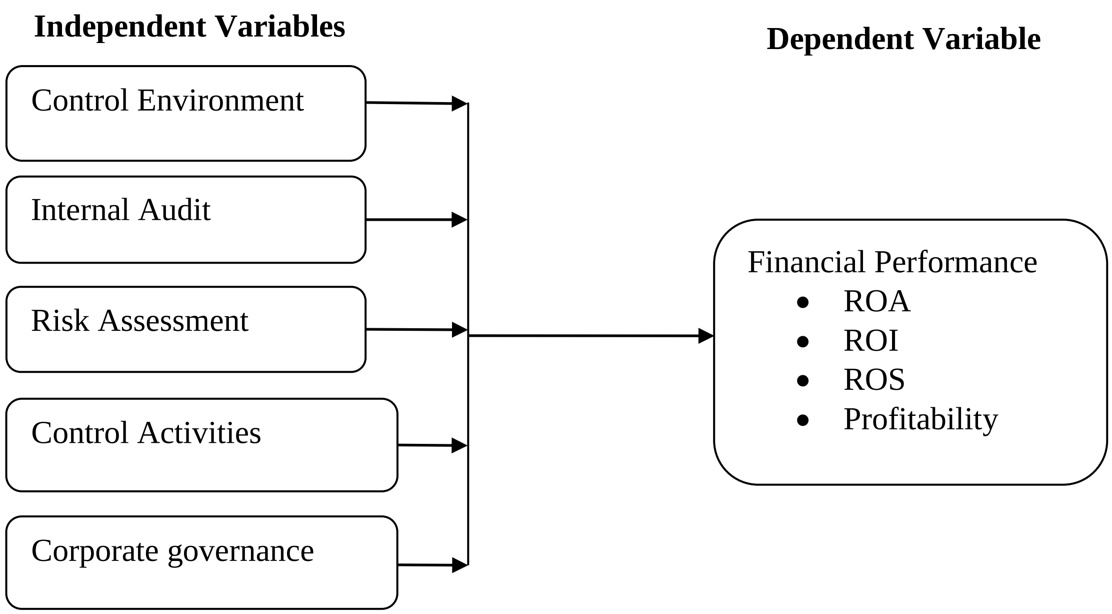
Barra (2010) did a study on the measures taken to employees who failure to adhere on internal control measures put in place to cope with cases of frauds, the study employed analytical model on focusing on monitoring process and control activities. Employees particularly management staff and non-management staff were involved in the study.

From the study findings, separation of duties, availability of control measures provides loopholes for employees to engage in embezzlement activities. Therefore, the control systems put in place to detect fraud cases have to be more accurate and sensitive to discourage and report any detected cases of fraud among employees. The separation duties provide an opportunity for employees within the organization to engage in scandals that maybe prevented if critical roles and duties were centralized. The study pointed that preventive measures may be effective if duties were aligned to the detective controls adopted. The study adopted control theory, which points that the importance of internal control system is based on the need to adjust the interests of management from that of different shareholder in the firm, keeping in mind the end goal to make the management responsible on the firm performance is to internal control systems are effective and viable.

A study was conducted by Wee Goh (2009) to determine the board composition and how it influences effectiveness of internal control in an organization. He used indicators such as CEO duality, number of meeting held in a given period, independency of audit committee, expertise of auditors, end result of the committee independence and the size of the committee. He examined how auditing can enhance resources utilization and they effect on organization performance within a stipulated timeline. The study found that there is relationship between composition of the audit committee and financial expertise and that there is considerable association between the variables. The study also found that the company with more number of audit committee reduces waste of materials and timely delivery of the services. Likewise, the organization with more independent board pressurizes the management to be committed in their responsibility in order to ensure objective of the organization are archived.

In a study conducted on association between internal control and corporate governance by Olumbe (2012) in 45 commercial bank in Kenya. The study illustrated that banks had put in place the measures that were guiding in detecting unusual activities that could lead to losses. This was indicated by the respondent agreeing that there was a strong relationship between the internal control activities and corporate governance in their banks. Wainaina (2011) on other hand conducted a study on internal control activities and established that there were measures that were put in place to scan the fraud, and where such attempt were noted were met with a strong internal control detection tools that alerted such an attempt which assisted in operation of the bank as well as the accuracy of its financial and operational records for the literature above it is clear that there is a mixed result on internal control systems on financial performance, where some studies have indicated that there significant relationship while other give a centrally result. Thus the current study aims to investigate this scenario by investigating effect of internal control systems on financial performance focus to supermarket operating in Kajiado County. It is a diagrammatic representation of the correlation between dependent and independent variables. In this study, the dependent variable would be financial performance while independent is control environment, internal audit, risk assessment, control activities and Corporate governance.

Figure 2.1 Conceptual Model



Source: Researcher (2017)

2.6 Summary of Literature Review

Studies done from literature reviews shows that there is positive relationship between financial performances of an organization regardless of whether there is internal Controls. One of the major stumbling block to the achievement of positive financial performance in supermarkets is resistance to the internal controls is. Though there is lot of studies done on control environment and control activities, only little attention has been paid on relation between internal control and money value. Poor, no-existence and non-compliance public financial management policies (Internal Control Systems) are liable to nullify any focal points that may be essential in realizing better financial performance in a company.

Fadzil, Haron and Jantan (2005) asserted that an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner, Larcker & Randall, 2003).

The world over, it is acknowledged that the Internal Audit practices can possibly provide unparalleled administrations to management in the behavior of their obligations. There has been advance in achieving accord on what audit standards, governments and government offices ought to apply (Spencer, 2008). It is basic to note that both the International Organization of Supreme Audit Institutions (INTOSAI) and the Institute of Internal Auditors (IIA) have issued guidelines to manage inspecting in the general population area. On account of internal control and Audit Committees, rules must be in conformance with the Institute of Internal Auditors'- International Standards for the Professional Practice of Internal Auditing (Sayag, 2010).

For the greater part of its history internal audit control has served as a measure of checking records, tallying resources, and answering to Board of Directors, Management and External Auditors (Ramamoorti, 2003). However, as of late, a mix of various forces has prompted a peaceful transformation of the process. According to Gramling (2004) organizations need to exhibit responsibility in the utilization of shareholders’ money and productivity in service delivery and reporting.

From the literature we can conclude that control environment, internal audit, risk assessment, control activities and corporate governance are critical indicators of budgetary performance. Most of the literature reviewed is from developed nations whose financial footing and strategic approach is different from that of Kenya. Hence, there is a research gap on the subject matter in the Kenyan situation. Therefore, the study seeks to fill this gap by investigating effect of internal control systems on financial performance of supermarket in Kajiado County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter defines the target population of the study, the sampling size to be used, sampling procedure to be followed as well as the type of instrument that was used. The data collection procedures and data analysis techniques that will be used in analysing the results of the study are also discussed. This research study will use both descriptive and quantitative data.

3.2 Research Design

Descriptive survey design was utilized in conducting this study. According to Mugenda and Mugenda, (2003) descriptive study design aims at obtaining descriptive information regarding prevailing portents by enquiring from peoples regarding their opinions, attitudes, and behaviours. It is suitable to utilize descriptive study design in this survey because it contains a small population which make it easy to examine exact features of every population. Further, it assists in original data collection on relationship between internal control system and financial performance.

3.3 Population

The population must fit the specifications that the researcher is looking for. A researcher must have a target population in mind which they are looking to get their message through. The study chose to use the population from Kajiado County targeting 66 different supermarkets operating within the county. This study focused on supermarket to establish the internal control measure they have employed to ensure they report positive financial performance. This was of great benefit to the supermarkets such as Uchumi and Nakumatt which were struggling to still be in the market as they report losses in their financial report.

3.4 Sample

To come up with a sample size, it is good to select a representative of respondents. From the population frame the required number of subjects, respondents, elements or firms is to be selected in order to make a sample. The study selected a sample of 39 supermarkets from a target population of 66 supermarkets in Kajiado County. In each organization one (1) respondent were interviewed either management staff particularly on finance department. The study employed Mugenda and Mugenda formulae to come up with sample size. According to Mugenda and Mugenda(2003) statistical technique for selecting a sample from a population of less than ten thousand, the model is derived as follow:

$n= (z^2 pq)/d^2$

Where:

n = is the desired sample size when the target population is > 10,000.

z = standardized normal deviations at a confidence level of 95% which is 1.96.

p= the proportion in the target population that assumes the characteristics being sought. (In this study, a 50:50 basis is assumed which is a probability of 50% (0.5).

q = The balance from p to add up to 100%. That is 1-P, which in this case will be 1- 50% (0.5).

d = Significance level of the measure, that is at 90% confidence level the significance level is 0.1

Using the above formulae, the number of companies to be sampled was calculated as below.

$n = (1.96^2 \text{ X } 0.5 \text{ X } 0.5)/ (0.1)^2 = 96$

Target population in this study is less than 10,000, thus the sample of 96 was adjusted using the formula below (Mugenda & Mugenda, 2003).

$n_f = n/(1+n/N)$ where n_f is the desired sample size when sample size is less than 10,000 and n is the sample size when the target population is more than 10,000. N is the target population size. Using the above formulae the number of companies to be sampled was reduced to thirty nine (39)

$n_f = n/(1+n/N) = 96/(1+96/66) =39$

3.5 Data Collection

Donald (2006) noted that researchers use either Primary or Secondary data as the two major data sources. The study relied on primary data which was collected using a. structured questionnaire. The questionnaire involved both open and close-finished inquiries. The study used likert scale to generate the questions in the questionnaire. The questionnaire consisted of structured questions. The close-ended questions give more organized reactions to encourage substantial suggestions. The questionnaire was sub-divided into two sections. The first section addressed demographic characteristics of the respondents while the second section addressed five (5) research objectives, that is control environment, internal audit, risk assessment, control activities and corporate governance.

Validity and Reliability

The study conducted a pilot study to pre-test and validates the data instrument. The pilot testing was conducted using the questionnaire on 15 management staff in supermarkets operating in Kajiado County. The pilot group was done through random sampling.

The motivation behind the pilot test is to set up the legitimacy and unwavering quality of the exploration instruments and thus upgrade confronts legitimacy. The dependable guideline is that 10% of the specimen ought to constitute the pilot test (Cooper & Schilder, 2011). The proposed pilot test is within the recommendation. The study utilized both face and substance legitimacy to find out the legitimacy of the surveys. Content validity draws a derivation from test scores to a vast space of things like those on the test. Content validity is concerned with test populace representativeness. Response options were given to the majority of the inquiries to guarantee that the answers given are in accordance with the examination questions they are intended to gauge.

Reliability is based with the subject of whether the aftereffects of a study are repeatable. The researcher used the most widely recognized interior consistency measure known as Cronbach's alpha (α). It demonstrates the degree to which an arrangement of test things can be dealt with as measuring a solitary dormant variable. The suggested estimation of 0.6 or more was utilized as a cut-off of reliabilities (Rousson, Gasser & Seifer, 2002). The pilot testing was re-run until the researcher is satisfied with the data collection instruments.

3.6 Data Analysis

Data collected was coded and entered to Statistical Package for Social Sciences (SPSS Version 22.0) program. The study adopted regression analysis. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables (control environment, internal audit, risk assessment, control activities and corporate governance) and the dependent variable (Financial Performance of Supermarket).

3.6.1 Analytical Model

Specifically, the regression model that was used in this study was;

$FP = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$

Where,

FP – Financial Performance as measured by (ROA)

β0 – Constant

X_1-Control Environment as measured by (Segregation of duties, physical controls, assessment of risks, monitoring procedures)

X_2 –Internal Audit as measured by (Organization policy, delegation of duties, commitment and competence of staff, operating style)

X_3-Risk Assessment as measured by (Risk Identification, Risk analysis, evaluation & Risk control and report)

X_4– Control Activities as measured by (Performance reviews-appraisals, information processing, and sharing & physical control)

X_5– Corporate governance as measured by (board of size, board ownership. board independence, CEO duality, board education and experience,

β_1 - β_5= Measure of sensitivity of variable X_i to changes in FP

Є= Error term

3.6.2 Test of Significance

To test significance of the independent variables (control activities, risk assessment, control environment and monitoring) against the dependent variable (Financial Performance) the research was undertaken an F-test. Variables with a 'p' value of 0.05 and was considered significant while the once with 'p' values above 0.05 was considered insignificant when testing the significance of variables at 95% confidence level.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The purpose of the study was to analyse effect of internal control systems on financial performance of supermarket in Kajiado County. The study presents the finding of the study by use of frequency tables and figures. The finding intended on answering the study's research questions. Data collected were reported and summarized in form of tables and figures and qualitative analysis done in prose.

4.2 Response Rate

The study targeted a sample of 39 respondnets. However, out of 39 questionnaires distributed 32 respondents completely filled in and returned the questionnaires, this represented a 82% response rate. This is a reliable response rate for analysis as Mugenda and Mugenda (2003) showed that 50% of response rate is sufficient for analysis and presentation of the data, 60% is reliable and 70% of response rate and over is excellent. However, 18% of the respondent were reluctant to responded to fill the questionnaire this was due to reasons like, the respondent were not available to fill them in at the required time and even after subsequent follow-up there were no positive reactions from them.

Table 4.1 Response Rate

Response	**Frequency**	**Percentage (%)**
Filled in questionnaires	32	82
Non response	7	18
Total	**39**	**100**

Source: Research Findings (2017)

4.3 General Information

The study aimed to establish the general information about the respondnet. The study used this information to base the study finding on the experience of the respondents and familiarity of the respondent to the information that the study sought.

4.3.1 Gender of the Respondent

The study requested the respondents to indicate their gender. According to the study findings majority (64%) of the respondents were male while the rest 36% were female. This implies that majority of most of the employees in retail business are male while their counterpart (females) occupies only small portion.

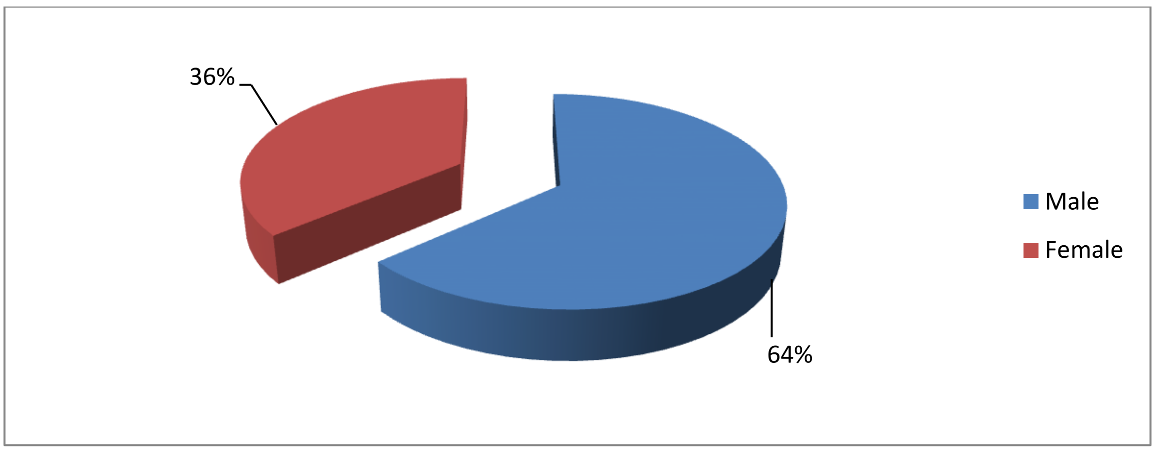


Figure 4.1 Gender of the Respondent

Source: Research Findings (2017)

4.3.2 Age of the Respondent

The study further aimed to establish the age category of the respondent. Table 4.2 shows the results of the study. From the study 52% of the respondents aged 30-39 years, 30% of the respondents aged 21-29 years while 18% were aged between 40-49 years. This depicts that majority (82%) of the employees in supermarkets are youthful aged between 21-39 years.

Table 4.2 Age of the Respondent

	Frequency	Percentage
21-29 years	10	30
30-39 years	17	52
40-49 years	6	18
Total	**33**	**100**

Source: Research Findings (2017)

4.3.3 Working Duration

Figure 4.2 illustrates working duration of the respondents in their respective organization. From the findings most (45%) of the respondents had worked in supermarket a period of 11-15 years, 42% had worked for a period of above 21 years while 12% had worked for a period of 16-20 years. This suggests that most of the respondents of this study had worked for adequate time within supermarkets and therefore they were in a position to provide information that the study sought.

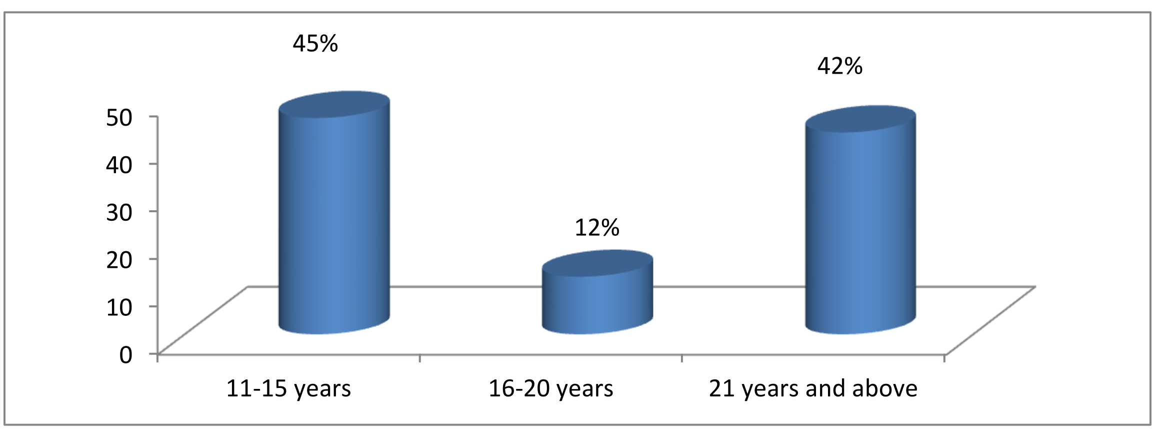


Figure 4.2 Working Duration

Source: Research Findings (2017)

4.4. Control Environment

Table 4.3 depicts results of the findings on respondents' level of agreement to the statements relating to how control environment practices enhance financial performance in their organization. From the findings, respondents agreed that their organization has an objective, independent and active audit committee as shown by mean score of 3.82. Board of governors and its committees are independent as indicated by a mean score of 3.74, respondents also agreed that management acts with a great degree of integrity in execution of their roles as depicted by mean score of 3.70. Ethical values are upheld in all management decisions as shown by mean score of 3.64. Appropriate measures are taken to correct misappropriation in operation of our accounting & finance management system and that management closely monitors implementation of Internal control systems in our institution as illustrated by mean score of 3.52 and 3.50 respectively. On the other hand respondnets were neutral that management is committed to the operation of the system and that their organization has an accounting and financial management system as illustrated by mean score of 3.48 and 3.27 respectively.

Table 4.3 Control Environment

	Mean	STDev
Our organization has an accounting and financial management system	3.27	0.719
Management is committed to the operation of the system	3.48	0.619
Management closely monitors implementation of Internal control systems in our institution	3.50	0.870
Management provides feedback to the junior officers about the operation of the system	3.36	0.859
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System	3.52	0.712
Management acts with a great degree of integrity in execution of their roles	3.70	0.489
Ethical values are upheld in all management decisions	3.64	0.859
Our organization has an objective, independent and active audit committee	3.82	0.808
Our Board of governors and its committees are independent of Management	3.74	0.827

Source: Research Findings (2017)

4.5 Internal Audit

The researchers requested the respondent to indicate the effect of internal control on organization performance. From study results most of respondents agreed that there is an on-going and reconciliation of all accounts as illustrated by mean score of 4.06, Operational policies controls, Control information within the organization, Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process as shown by mean score of 3.76, 3.70 and 3.69 respectively. Further respondents agreed that managerial controls, Accounting Information and communication and that Methodical examination of business processes and connected controls as shown by mean score of 3.64, 3.55 and 3.52 respectively. On the other hand, respondent were neutral that assessment of internal control framework, reviews of individual systems and processes and that provide financial controls 3.48, 3.38 and 3.31 respectively. Cohen (2002) pointed that internal auditing practices is a crucial part of an organization performance in both private and public sectors. Internal audit practices helps an organization to achieve its goals by bringing an orderly, trained way to deal with assess and enhance the adequacy of hazard administration, control, and administration forms.

Table 4.4 Internal Audit

	Mean	**STDev**
Reviews of individual systems and processes	3.38	0.692
Provide Financial controls	3.31	0.854
Managerial controls	3.64	0.783
Operational policies controls	3.76	0.663
Control information within the organization	3.70	0.770
Accounting Information and communication	3.55	0.711
Assessment of internal control framework	3.48	0.795
Methodical examination of business processes and connected controls	3.52	0.712
Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process	3.69	0.918
Ongoing and independent reconciliation of all balances	4.06	0.827

Source: Research Findings (2017)

4.6 Risk Management

The study further aimed to investigate effect of risk management and how it affects financial performance of supermarkets. From the findings, most of the respondent pointed that assess ethics and values within the organization and that management has defined appropriate objectives for the organization as depicted by mean score of 3.88 and

3.82 respectively. Further respondents agreed that Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk, management has put in place mechanisms for mitigation of critical risks that may result from fraud, management provide assurance that the risks are being appropriately managed and that management identifies risks that affect achievement of the objectives as shown by mean score of 3.76, 3.67, 3.65 and 3.61 respectively. Respondents were neutral that management has a criteria for ascertainment of which fraud related risks to the organization are most critical as shown by mean score of 3.36. The findings conforms to Bromilow and Berlin (2008) organizations set up internal control framework as an administrative necessity that helps in guaranteeing that all management practices are fittingly completed.

Table 4.5 Risk Management

	Mean	**STDev**
Management has defined appropriate objectives for the organization	3.82	0.927
Management identifies risks that affect achievement of the objectives	3.61	0.704
Management has a criteria for ascertainment of which fraud related risks to the organization are most critical	3.36	0.603
Management has put in place mechanisms for mitigation of critical risks that may result from fraud	3.67	0.777
Management provide assurance that the risks are being appropriately managed	3.65	0.854
Assess ethics and values within the organization	3.88	0.600
Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk	3.76	0.751

Source: Research Findings (2017)

4.7 Control Activities

The researcher requested the respondents to indicate effect of control activities on financial performance of supermarkets. Most of the respondents pointed that assessment of risks, monitoring procedures, supervisory activities, environmental management and system of verification on reconciliation influence financial performance to a great extent as illustrated by mean score 4.24, 4.12, 4.0, 4.02, and 4.00 respectively. Further respondents indicated that Environmental monitoring, Follow-up on non- compliance Checking for compliance with exposure limits and Segregation of duties, System of approvals and authorizations influence financial performance to a great extent as illustrated by mean score of 3.98, 3.94, 3.92, 3.91 and 3.88 respectively. Likewise, respondents agreed that information processing and sharing, Physical controls and that performance review affects financial performance of supermarkets as depicted by mean score of 3.73, 3.67 and 3.55 respectively. The findings conforms to Dunjia (2011) that Organizations develop some procedures to ensure it goals and objectives are attained effectively which help them accomplish execution and hierarchical objectives, avoid loss of assets, empower creation of dependable reports and guarantee consistence with laws and directions. Hayes (2005) internal controls provide sensible yet not outright confirmation to a firm management and board of directors that the organization targets will be accomplished. This implies that an organization that set up a suitable and sufficient arrangement of internal controls is outdoing it is competitors and player that do not have such systems.

Table 4.6 Control Activities

	Mean	STDev
Performance reviews	3.55	0.711
Information processing and sharing	3.73	0.761
Physical controls	3.67	0.924
Segregation of duties	3.91	0.843
System of approvals and authorizations	3.88	0.857
Follow-up on non- compliance	3.92	0.827
Checking for compliance with exposure limits	3.94	0.659
System of verification on reconciliation	4.00	0.707
Supervisory activities	4.06	0.659
Assessment of risks	4.24	0.663
Monitoring procedures	4.12	0.696
Environmental management	4.02	0.659
Environmental monitoring	3.98	0.791

Source: Research Findings (2017)

4.8 Corporate Governance

The researchers requested the respondent to indicate the effect of corporate governance on supermarkets financial performance. From study results, most of respondents agreed pointed that presence of higher number of independent directors in the board enhances the decision credibility and objectivity as illustrated by mean score of 3.82. Further respondents agreed that organization has a smaller board size which contribute more and better in the best interest of the organization, board member constitutes of a well-educated and experienced member who are able to inspect the current situations and take measures and decisions accordingly pertaining to financial performance of their organization and that majority of board members are partners in business this brings their personal interest in the company's matters which help to enhancement of firm's financial performance as shown by mean score of 3.79, 3.76 and 3.73 respectively. Respondents were neutral that their organization has CEO and chairman of the board with specific responsibilities as illustrated by mean score of 3.45. Venables and Impey (2010) expressed that internal audit is a significant instrument of administration for enhancing organization performance. Along these lines internal control acts as a watch dog which can save the organization from acts of neglect and anomalies in which enhance organization to accomplish its targets of guaranteeing abnormal state of efficiency and benefit. Hermanson and Rittenberg (2008) pointed that the existence of an effective internal audit capacity is connected with effective firm performance.

Table 4,7 Corporate Governance

	Mean	**STDev**
Our organization has a smaller board size which contribute more and better in the best interest of the organization	3.79	0.740
Majority of board members are partners in business This brings their personal interest in the company's matters which help to enhancement of firm's financial performance	3.73	0.574
Presence of higher number of independent directors in the board enhance the decision credibility and objectivity	3.82	0.635
Our organization has CEO and chairman of the board with specific responsibilities	3.45	0.506
Board member constitutes of a well-educated and experienced member who are able to inspect the current situations and take measures and decisions accordingly pertaining to financial performance of our organization	3.76	0.663

Source: Research Findings (2017)

4.9 Financial Performance

Table 4.8 shows the finding of the study on attributes of organization financial performance for the last 3 years. From the findings, the study found that ROA has been improving rapidly in most organizations as shown by mean score of 3.82, ROA, ROS and Profitability has been improving for the last three years as depicted by mean score of 3.73, 3.70 and 3.61 respectively.

Table 4.8 Financial Performance

	Mean	STDev
ROA	3.818	0.727
ROI	3.727	0.574
ROS	3.697	0.684
Profitability	3.606	0.704

Source: Research Findings (2017)

4.10 Inferential Analysis

The study conducted regression analysis to show the relationship between internal audit practices and organization performance. Before the regression analysis, the data was subjected to assumptions of regression analysis, with no violation observed.

4.10.1 Coefficient of Correlation

To compute the correlation between the study variables and their findings the researcher used the Karl Pearson's coefficient of correlation (r). From the findings, it was clear that there was a positive correlation between control environment and financial performance as shown by a correlation figure of 0.523, it was also clear that there was a positive correlation between internal audit and financial performance with a correlation figure of 0.6140, there was also a positive correlation between risk management and financial performance with a correlation value of 0.7460, the study also established that there was positive relationship between control activities and organization financial performance with a correlation value of 5210 and a positive relationship between corporate governance and organization financial performance with a correlation value of 0.553. This shows that there was a positive correlation between risk management strategies implementation and information technology, management commitment, accountability and staffs training.

Table 4.9 Coefficient of Correlation

		Financial performance	**Control environment**	**Internal audit**	**Risk management**	**Control activities**	**Corporate Governance**
Financial performance	Pearson Correlation	**1**					
	Sig. (2-tailed)						
Control environment	Pearson Correlation	.523	1				
	Sig. (2-tailed)	.0032					
Internal audit	Pearson Correlation	.6140	.3421	1			
	Sig. (2-tailed)	.0021	.0014				
Risk management	Pearson Correlation	.7460	.1240	.0621	1		
	Sig. (2-tailed)	.0043	.0120	.0043			
Control activities	Pearson Correlation	.5210	.3420	.0000	.1660	1	
	Sig. (2-tailed)	.0172	.0031	1.000	.0031		
Corporate governance	Pearson Correlation	.5530	.3420	.0000	.1660	.0528	1
	Sig. (2-tailed)	.0172	.0031	1.000	.0031	.137	

Source: Research Findings (2017)

4.10.2 ANOVA

An analysis was performed on the relationship between internal audit practices and organization financial performance. From the table 4….., the model was significant (p-value = 0.015) at 0.05 level in explaining the linear relationship between internal audit practices and organization financial performance. Additionally, the F-statistic is significantly greater than 1 thus indicating the appropriateness of the model in testing the relationship between independent and dependent variable. This means that the model is appropriate for testing the significant of the study.

Table 4.10 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.587	5	.717	1.454	.015[b]
	Residual	13.322	27	.493		
	Total	16.909	32			

Source: Research Findings (2017)

4.10.2 Model Summary

The coefficient of determination also known as model summary was carried out to measure how well the statistical model was likely to predict future outcomes. The coefficient of determination, r^2 is the square of the sample correlation coefficient between outcomes and predicted values.

The five independent variables that were studied, explain only 83.4% of the supermarket financial performance as represented by the adjusted R^2. This therefore means that other internal control aspects not studied in this research contribute 16.6% of the financial performance in the supermarkets. Therefore, further research should be conducted to investigate the other aspects (16.6%) that affects financial performance in the supermarkets.

Table 4.11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.913	0.834	0.751	0.4538

Source: Research Findings (2017)

4.8.2 Regression Analysis

4.8.3 Multiple Regression

Multiple regression analysis was conducted as to determine the relationship between organization financial performance and the five variables (five independent variables studied). As per the SPSS generated table 4.19, the equation

(**FP =** $\beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$) becomes:

$Y = 1.308 + 0.558X_1 + 0.651X_2 + 0.675X_3 + 0.620X_4 + 0.639X_5$

The regression equation above has established that taking all factors into account (control environment, internal audit, risk management, control activities and corporate governance) constant at zero, organization financial performance will be 1.308. The findings presented also shows that taking all other independent variables at zero, a unit increase in control environment will lead to a 0.558 increase in organization financial performance; a unit increase in internal audit will lead to a 0.651 increase in organization financial performance; a unit increase in risk management will lead to a 0.675 increase in organization financial performance, a unit increase in control activities will lead to a 0.620 increase in organization financial performance and a unit increase in corporate governance will lead to a 0.620 increase in organization financial performance. This infers that risk management contribute most to organization financial performance followed by internal audit then corporate governance, control activities while control environment contributed the little to organization financial performance.

Table 4.12 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.308	1.342		1.623	0.357
Control environment	0.558	0.310	0.172	4.342	.0276
Internal audit	0.651	0.156	0.210	3.532	.0285
Risk management	0.675	0.322	0.067	3.542	.0202
Control activities	0.620	0.245	0.148	3.458	.0249
Corporate governance	0.639	0.342	0.057	3.361	0.243

Source: Research Findings (2017)

4.11 Summary and Interpretation of Findings

Based on the study findings, the study found that organizations have appropriate risk based hence viable and productive internal audit review. The findings conforms to Bromilow and Berlin (2008) organizations set up internal control framework as an administrative necessity that helps in guaranteeing that all management practices are fittingly completed. From the discoveries, the study presumed that hazard based evaluating through hazard appraisal, chance administration, yearly hazard based arranging, interior examining models and inner inspecting staffing ought to be upgraded. Internal audit practices helps an organization to achieve its goals by bringing an orderly, trained way to deal with assess and enhance the adequacy of hazard administration, control, and administration forms. The internal audit action assesses chance exposures identifying with the association's administration, operations and data frameworks. The interior evaluators are relied upon to give proposals to change in those territories where openings or insufficiencies are distinguished. Cohen (2002) pointed that internal auditing practices is a crucial part of an organization performance in both private and public sectors.

From the findings the study found that risk assessment, risk management strategies, risk mitigation, risk monitoring, assess ethics and values within the organization, risk management provide assurance that the risks are being appropriately managed and risk identification influence organization performance effectiveness. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations. Hayes (2005) internal controls provide sensible yet not outright confirmation to a firm management and board of directors that the organization targets will be accomplished. This implies that an organization that set up a suitable and sufficient arrangement of internal controls is outdoing it is competitors and player that do not have such systems. Thus inadequate control systems may have negatively affected an organization's success and that successful internal control practices is connected with prudent organizational performance.

The study established that accounting information and communication provide financial controls, managerial controls and reviews of individual systems and processes influence organization performance effectiveness. Provision of autonomous confirmation of an adequate specimen of exchanges to guarantee uprightness of the basic leadership handle, operational strategies controls, On-going and free compromise of all parities influence organization performance effectiveness. Risk impacts an organization's capacity to contend and to keep up its financial strength and the nature of its products and services. An effective internal control system requires that the material risks that could adversely affect the achievement of the organizations goals are being recognized and continually assessed.

Further, the study found that monitoring procedures, checking for compliance with exposure limits, physical controls, supervisory activities, environmental monitoring, system of verification on reconciliation, assessment of risks and that segregation of duties influence. Organizations develop some procedures to ensure it goals and objectives are attained effectively which help them accomplish execution and hierarchical objectives, avoid loss of assets, empower creation of dependable reports and guarantee consistence with laws and directions (Dunjia, 1997). Internal audit practices in organization can fundamentally influence the operations of the business and may affect the capacity of the firm to remain competitive.

The study established that internal auditing is regularly considered as a general checking action with obligation to management for surveying the viability of control techniques which are the duties of functional managers. Internal audit helps an organization to complete its targets by bringing a composed, restrained approach that to build up the adequacy of hazard administration, control and administration forms (IIA, 2004). The internal audit function is not limited to the operation of any particular function within an organization. Rather, it is allembracing and accordingly is structured in the organizations a separate entity responsible only to a high level of management. An effective internal audit service help to reduce overhead, distinguish approaches to enhance proficiency and boost introduction to conceivable misfortunes from deficiently shielded organization resources all of which can significantly affect the main issue. Cai (2007) internal auditing shapes a key managerial control mechanical assembly that is clearly associated with the structure and general standards of an affiliation.

Internal audit function in organizations where it exists, contributes considerably to execution change and help with distinguishing benefit prove in corporate calamities, especially money related extortion reliably archives a relationship between feeble administration. Venables and Impey (2010) expressed that internal audit is a significant instrument of administration for enhancing organization performance. Along these lines inner review by going about as a guard dog could spare the association from acts of neglect and anomalies in this manner empowering the association to accomplish its targets of guaranteeing abnormal state of efficiency and benefit. Hermanson and Rittenberg (2008) pointed that the existence of an effective internal audit capacity is connected with effective firm performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter depicts the summary of the data findings on the effect of internal control systems on financial performance of supermarket in Kajiado County, the conclusions and recommendations are drawn there to. The chapter is therefore structured into summary of findings, conclusions, recommendations and area for further research.

5.2 Summary

The objectives of this study were to ascertain how control environment, internal audit, risk management, control activities and corporate governance affect financial performance of supermarkets in Kenya.

From the findings, the study found that most organizations have set their objectives, independent and active audit committee and that management acts with a great degree of integrity in execution of their roles. This ensures that ethical values are upheld in all management decisions where appropriate measures are taken to correct misappropriation in operation of our accounting & finance management system. The study also found that management closely monitors implementation of internal control systems in their institutions.

To the objective of internal audit, the study established that there is an on-going and reconciliation of all accounts in most organization. To ensure integrity of the decision making process, most organization have set operational policies controls, control information within the organization and adequate provision of independent verification of a sufficient sample of transactions.

On risk management and how they influence financial performance, the study established that organizations assess ethics and values within the organization. This is in line with an effort to empowerment where they have defined appropriate objectives for the organization. Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk, management has put in place mechanisms for mitigation of critical risks that may result from fraud. Management provide assurance that the risks are being appropriately managed and that management identifies risks that affect achievement of the objectives.

On how control activities, the study found that assessment of risks, monitoring procedures, supervisory activities, environmental management and system of verification on reconciliation influence financial performance to a great extent. Likewise, the study found that environmental monitoring, follow-up on non- compliance checking for compliance with exposure limits and Segregation of duties, System of approvals and authorizations influence financial performance to a great extent. Information processing and sharing, physical controls and that performance review affect financial performance of supermarkets to a great extent.

To the effect of corporate governance on financial performance, the study found that presence of higher number of independent directors in the board enhances the decision credibility and objectivity. Organization has smaller board sizes which contribute more and better in the best interest of the organization, board member constitutes of a well-educated and experienced member who are able to inspect the current situations and take measures and decisions accordingly pertaining to financial performance of their organization. Majority of board members are partners in business this brings their personal interest in the company's matters which help to enhancement of firm's financial performance.

5.3 Conclusions

Based on finding, the study concludes that:-

The study concluded that most organizations have set their objectives, independent and active audit committee and that management acts with a great degree of integrity in execution of their roles. This ensures that ethical values are upheld in all management decisions where appropriate measures are taken to correct misappropriation in operation of our accounting & finance management system. The study also concludes that management closely monitors implementation of internal control systems in their institutions.

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5.4 Recommendation for Policy and Practice

Based on the study findings, the following recommended were made; On control environment, the study concludes that management attitude should be committed to ethical business practices and follows the established control procedures. This is the establishment for every other segment of inside control, giving order and structure. The study also concludes that where an enterprise has environmental considerations as some of their objectives it is entirely necessary and appropriate that internal control should facilitate the assured achievement of those objectives. Additionally, the study concluded that organizations should have separate environmental audits conducted by someone other than internal audit; but internal audit should be in a position to provide this service to the business, and to take account of work done by others that contributes to meeting this objective.

To the internal audit, the study recommends that management should ensure that applicable measures are applied to enhance internal audit practices within the organization. Auditors should also give clear picture of the financial position of the organization without coercion from the management in order to determine the future of the organization as well as recommending the possible approaches that the organization can apply to be financially stable.

The head of the internal audit department should be responsible to the management/board in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The study recommended that risk assessment should be led at the level of individual organizations and over the wide range of exercises and auxiliaries of the solidified association. This includes evaluating the risks to determine which are controllable by the bank and which are not. This can be accomplished through various methods. This addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide. In order for risk assessment to remain effective, senior management needs continually to evaluate the risks affecting the achievement of its goals and react to changing circumstances and conditions. Internal controls should also be revised to appropriately address any new or previously uncontrolled risks.

To the effect of control activities on organization performance, the study recommends that internal control ought to be viable when looking at outline can amazingly gainful and is as a rule for organization management and broadly to current financial performance, a wide range of business firms have utilized interior controls through the development of strategies to guarantee a shielding resources and beneficial business environment particularly bookkeeping arrangement, administration approach, and operational strategy. Subsequently, internal control ought to be all the time survey in all parts of their organization and embed external controls that will reinforce the organization and improve profits. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations; and, a system of verification on reconciliation.

On corporate governance, the study recommends that supermarkets should apply the best practices of governance to ensure that the interest of management and shareholders are safeguarded and that they do not conflict the objective of the organization. On the same the study recommends that management should come-up with control measures that ensure all senior staff within the organization complies with a given codes and ethics that gives priority to the organization objectives hence ensuring financial performance.

5.5 Limitation of the Study

The study limited itself to 39 supermarkets where only one respondent was targeted in each supermarket. This is due to the time factor and information that the study sought as well as the reluctant of respondents to participate in the study. The study was also limited to establish effect internal audit on financial performance of supermarkets operating within Kajiado County. The method used is descriptive research design whereby the variables cannot be controlled by the researcher. The study intended to use questionnaire as the instrument for collecting data.

5.6 Area for Further Study

The study recommends that a study be done a study be done on the role of internal control systems on financial performance with focus to public owned enterprises in order to depict real situation across the sectors. The study also recommends that a study be done on challenges that affect internal auditing practices in both public and private sectors.

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APPENDICES

Appendix I: Introductory Letter

Dear Sir/Madam,

REF: REQUEST TO CARRY OUT DATA COLLECTION.

I am a student at University of Nairobi pursuing a Master's degree in Business Administration (Finance Option). As a requirement in fulfilment of this degree, am carrying out a study on the '**EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF SUPERMARKETS IN KAJIADO COUNTY**.'

You have been chosen as you are well positioned to provide reliable information that will enable the study achieve its objectives. I intend to research the above though the use of questionnaires.

Any assistance accorded to me in my noble cause and information given shall be treated as confidential and will be used purely for the purpose of this research and a final copy of the document shall be availed to you upon request. Your cooperation will be highly appreciated and thank you in anticipation.

Yours Faithfully,

Faith Nyaboke Ogetange

Appendix II: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender of the respondent :

Male	[ ]
Female	[ ]

2. Age of the respondent

Below 20 years	[ ]
21-29 years	[ ]
30-39 years	[ ]
40-49 years	[ ]
50 years and above	[ ]

3. length of service in the organization

0-5 years	[ ]
6-10 years	[ ]
11-15 years	[ ]
16-20 years	[ ]
21 years and above	[ ]

SECTION B: Effect of Internal Control Systems on Financial Performance of Supermarket within Kajiado County

4. Kindly rate the extent to which the following aspects of control environment practices how they enhance financial performance in your organization? Use a scale of 1-5 where 5= Very great extent, 4= Great extent, 3 = Moderate extent, 2= Little extent and 1= No extent

Control Environment	**1**	**2**	**3**	**4**	**5**
Our organization has an accounting and financial management system					
Management is committed to the operation of the system					
Management closely monitors implementation of Internal control systems in our institution					
Management provides feedback to the junior officers about the operation of the system					
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System					
Management acts with a great degree of integrity in execution of their roles					
Ethical values are upheld in all management decisions					
Our organization has an objective, independent and active audit committee					
Our Board of governors and its committees are independent of Management					

5. How effective do the following aspects of internal environment practices enhance your organization financial performance? Use a scale of 1-5 where 5= very effective, 4= effective, 3 = moderately effective, 2= slightly effective and 1= ineffective

Internal Audit	**1**	**2**	**3**	**4**	**5**
Reviews of individual systems and processes					
Provide Financial controls					
Managerial controls					
Operational policies controls					
Control information within the organization					
Accounting Information and communication					
Assessment of internal control framework					
Methodical examination of business processes and connected controls					
Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process					
Ongoing and independent reconciliation of all balances					

6. How effective are the following functions of internal audit through risk management, enhancing organization financial performance? Use a scale of 1-5 where 5= very

effective, 4= effective, 3 = moderately effective, 2= slightly effective and 1= less ineffective

Risk management	1	2	3	4	5
Management has defined appropriate objectives for the organization					
Management identifies risks that affect achievement of the objectives					
Management has a criteria for ascertainment of which fraud related risks to the organization are most critical					
Management has put in place mechanisms for mitigation of critical risks that may result from fraud					
Management provide assurance that the risks are being appropriately managed					
Assess ethics and values within the organization					
Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk					

7. How effective are the following functions of internal audit through control activities enhance organization financial performance? Use a scale of 1-5 where 5= very effective, 4= effective, 3 = moderately effective, 2= slightly effective and 1= ineffective

Control activities	1	2	3	4	5
Performance reviews					
Information processing and sharing					
Physical controls					
Segregation of duties					
System of approvals and authorizations					
Follow-up on non- compliance					
Checking for compliance with exposure limits					
System of verification on reconciliation					
Supervisory activities					
Assessment of risks					
Monitoring procedures					
Environmental management					
Environmental monitoring					

8. How effective are the following functions of internal audit through corporate governance enhance organization financial performance? Use a scale of 1-5 where 5= very effective, 4= effective, 3 = moderately effective, 2= slightly effective and 1= ineffective

Corporate Governance	**1**	**2**	**3**	**4**	**5**
Our organization has a smaller board size which contribute more and better in the best interest of the organization hence					
Majority of board members are partners in business This brings their personal interest in the company's matters which help to enhancement of firm's financial performance					
Presence of higher number of independent directors in the board enhance the decision credibility and objectivity					
Our organization has CEO and chairman of the board with specific responsibilities					
Board member constitutes of a well-educated and experienced member who are able to inspect the current situations and take measures and decisions accordingly pertaining to financial performance of our organization					

9. How would you rate the following attributes of organization performance in the last 3 years? Use a scale of 1-5 where 1 is greatly decreased, 5 greatly improved.

	Greatly decreased	**Decreasing**	**Constant**	**Improved**	**Greatly improved**
ROA					
ROI					
ROS					
Profitability					

Thank you for your participation

Appendix III: List of Supermarkets Operating in Kajiado County as at December 2016

1. Acacia	35. Naivas Mall
2. Amboseli	36. Naks
3. Amboseli Sopa	37. Ngong supermarket
4. Athi river mart	38. Ol Tukai mart
5. Bestlink	39. Oldivai
6. Bidii supermarket	40. Olooloitikosh
7. Brites	41. Olorgesailie
8. Care Four	42. Ongata Rongai supermarket
9. Chap chap	43. Osoita supermarket
10. Cleanshelf	44. Ostrich supermarket
11. Eastmatt	45. Porini supermarket
12. Garden	46. Powerstar
13. Giraffe supermarket	47. Quick pick
14. Jack n nice	48. Quickmart
15. Jackmill	49. Safari stores
16. Jujamash min supermarket	50. Saltes
17. Kamsa	51. satellite
18. Kassmat	52. Sentrim store
19. Kenya Yetu	53. Serena stores
20. Kibo stores	54. Shelf ridges
21. Kiserian mart	55. Shinny
22. Kitengela store	56. Shopper
23. Kithito store	57. Silver store
24. Kware mart	58. Stanmart supermarket
25. Leestar	59. Stedo
26. Maasai Mall	60. Swara supermarket
27. Maasai stores	61. Tawi stores
28. Maathai Supermarket	62. The zoros
29. Maguna andu	63. Tumaini Supermarket
30. Mashdan	64. Tuskeys
31. Milele Mall	65. Uchumi
32. Min supermarkets	66. Ufanishi supermarket
33. Murages'	
34. Naivas	

Source: Kajiado County Chamber of Commerce