THE RELATIONSHIP BETWEEN INTERNAL CONTROLS AND FINANCIAL SUCCESS OF SMALL AND MEDIUM SIZE MOBILE PHONE RETAILERS IN NAIROBI

BY

ALUDA JACKLINE ENGEFU

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DECLARATION

This research proposal is my original work and has never been presented for an award of diploma or degree in this or any other university.

Signature:____________________________ Date: ___________________________

JACKLINE ENGEFU ALUDA **Reg. No.D63/60011/2013**

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

Supervisor: Mr. ABDULATIF ESSAJEE

Signature: _________________________ Date: __________________________

DEDICATION

This study is dedicated to my family members for their faith in me and their continued support, their encouragement, motivation and understanding throughout the period of my studies.

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This study is a result of hard work in which I have been accompanied and supported by many people to whom I am grateful to express my gratitude. In particular to Almighty God for the strength, energy and health that He has given me. I would also like to thank my supervisor Mr. Abdulatif Eassaje and moderator Mr. Mirie Mwangi for their valuable guidance and inspiration throughout the study.

I would like to thank the various organizations that were kind enough to spare their valuable time to respond to the research questionnaire.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACEG	African Centre for Economic Growth
AICPA	American Institute of Certified Public Accountants
CCK	Communication Commission of Kenya
COSO	Commission of Sponsoring Organizations of the Treadway Commission
EU	European Union
FSD	Financial Sector deepening
ICT	Information Communication and Technological
SME	Small and Medium enterprise

ABSTRACT

Internal control system is fundamental in every organization for the business entity to achieve its objective. Internal control is the plan of organization and the coordinated procedures used within an entity to; safeguard its assets from loss by fraud or errors, check the accuracy and reliability of accounting data which management uses in decision making, and promotion of operational efficiency and encourage adherence to adopted policies in those areas in which the accounting and financial departments have direct or indirect responsibilities. Financial performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues. It is a general measure of an entity financial health over a given period of time and can be used to compare similar firms across the same industry or sector. A sample of 30 SMEs was studied. The sample was collected from Communication Commission of Kenya and Nairobi City Council. The sample was matched with data from Kenya National Bureau of Statistics (KNBS) to relate the SME and the number of staff and to ensure the number of staff was 5 and above. From the data obtained from KNBS a random sample was done to obtain a sample of 30 SMEs. Financial success was measured by the level of profitability of the firm over 5 years. On the other hand the overall effectiveness of internal controls was measured by the extent to which control environment, risk assessment, control activities, information and communication and monitoring factors were adhered to in the organization. A multiple regression analysis was used to measure the quantitative data which was analyzed using the statistical package SPSS. Using multiple regression analysis, the researcher established that there is a strong positive relationship between the internal control – control environment, internal control – control activities, risk assessment, information and communication, monitoring and evaluation and financial success.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The Commission of Sponsoring Organizations of the Treadway Commission (COSO) report defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in relation to the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. Internal control is fundamental to the successful operation and day-to-day running of a business and it assists the Company in achieving its business objectives (COSO, 2012).

A report by KPMG observes that business entities are very diverse in nature. Internal controls should be tailored to an individual business on particular characteristics and circumstances, which may depend upon, for example, its industry, size and organizational structure. Accordingly, it is not appropriate to adopt a “one size fits all” approach (KPMG, 2013). Although, generally, the internal control processes of smaller entities may be less formal and more flexible, it is nevertheless important that relevant policies and the procedures for implementing them are carried out thoughtfully, conscientiously and consistently.

There is no universally agreed definition of SMEs. Definitions vary from those based on the number of employees to those based on business turnover and assets (Katto, 2008). The African Centre for Economic Growth defines Small and Medium sized enterprises as having 11-50 employees (ACEG, 1999). Financial Sector deepening, Kenya (FSD) defines an SME as having a turnover of Kenya Shillings four million to one hundred million per annum and can take up a loan facility of between Ksh400, 000 to Ksh30, 000, 000 (Ngubia,2010).

1.1.1 Internal Controls

COSO issued Internal Control Integrated Framework in 2012.This framework helps business entities access and enhance internal control systems. The framework outlined five components of internal controls namely Control Environment, Risk Assessment, Control Activities, Communication and Monitoring. Control Environment refers to organization integrity, attitudes towards ethical dealings and general competence. Without a solid control environment, the other components of internal controls are not likely to be effective (Kakucha, 2009). The most important aspect of the control environment is the management attitude and incentives. If the management attitude towards enforcing controls is lackadaisical, the lower personnel are unlikely to adhere to policies and procedures.

The COSO report (2012) defines Control activities as policies and procedures that help to ensure that necessary actions are taken to address risks facing the organization. This report identifies three categories of control activities namely operational controls, financial information controls and compliance controls. Operational controls activities include segregation of duties, proper authorization of transactions, adequate documentation and records, physical controls over assets and independent checks on performance.

Information and Communication is the component of internal controls that emphasizes on proper flow of information in the organization. The emphasis is on communication flow in all directions

(Ashton, 1999) .COSO recommends that monitoring and evaluation should be on a periodic and ongoing basis. Monitoring and evaluation ensures the effectiveness of the other components.

1.1.2 Financial Success

Success in general, relates to the achievement of goals and objectives in whatever sector of human life. In business studies, success is a key term in the field of management, although it is not always explicitly stated. The concept of success is often used to refer to financial performance.

Unlike failure, success is not easily or objectively defined. One possible definition that has been derived through an exploratory survey of SMES by Yusuf (1995) states that determination of financial success may be arrived at by comparing profit generated from the business with the amount of assets invested in the business (i.e. Return on Investment). While other measures may be employed, the study argues that this measure will aid in reflecting the efficiency with which the resources have been allocated.

According to Knechel, Salterio and Ballow (2007), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Atrill & Eddie (1997) contends that, performance is measured by either subjective or objective criteria. Objective performance measures include indicators such as profit growth and return on capital employed. The subjective measures are performance by managers, productivity and efficiency in process activities of a business. Disadvantages of using subjective measures include difficulties with collecting qualitative performance measures from small firms and lack of reliability of such data arising from different accounting methods applied by different firms.

Alvin, Boggy and Buker (2003) noted that while both successful and unsuccessful companies can experience problems with cash flows from operations, the reasons are markedly different. A successful company confronting increasing investments in receivables and inventories to meet expanding customer demand often finds its growing profitability useful in obtaining additional financing from both debt and equity suppliers. This profitability ultimately yields positive cash flows.

1.1.3 Internal Controls and Financial Success

Internal control is fundamental to the successful operation and day-to-day running of a business and it assists the company in achieving its business objectives. The scope of internal control is very broad. It encompasses all controls incorporated into the strategic, governance and management processes, covering the company's entire range of activities and operations, and not just those directly related to financial operations and reporting. Its scope is not confined to those aspects of a business that could broadly be defined as compliance matters, but extends also to the performance aspects of a business (COSO, 2012).

One of the major objectives of internal controls pertains to ensuring effectiveness and efficiency of the entity operations. This includes financial performance and safeguarding assets against loss or misuse. If this objective is attained then the entity will be able to improve in its financial performance and attain financial success (Ngubia, 2010).

1.1.4 Small and Medium Sized Mobile Phone Retailers in Nairobi

The Small and Medium sized Enterprises play a very vital role in Kenyan economy. According to the economic survey (2013) that was done by the World Bank, the sector did contribute 82.5% total work force having employed 10.5 Million people. This means that this sector plays a very vital role in the economic development of Kenya's economy.

A survey done by Deloitte and Touch – Future of Telecoms in Africa (2013) indicate that the Information Communication and Technological Sector (ICT) is being fueled by improved economic conditions. The last five years has seen Kenya experiencing the fastest telecomm growth. According to Kenya's communication regulator, Communication Commission of Kenya (CCK), Kenya is at the forefront of mobile handset sales with over 8.5 million users. Kenya had a mobile penetration of 75.40% at the end of 2012. Samsung Corporation limited and Nokia Corporation have more than 500 mobile phone retailers in Nairobi area (Business Daily, 2012)

1.2 Research Problem

According to the Central bureau of Statistics (2012) SMEs contributed to seventy percent of the Gross Domestic Product in the year 2011, in Kenya. Despite the significance of SMEs a survey done by Kenya National Bureau of Statistics in the year 2007 indicated that three out of five small businesses fail within the first few months of operations.

A survey that was carried out in the year 2011 on failure of Small and Medium Enterprises in Kenya and Madagascar led to the conclusion that poor bookkeeping, lack of management and poor management of financial activities collectively accounted for 68% of the overall contributing factors on the failure of SMEs. Poor bookkeeping, lack of management and poor management are an indication that the components of internal controls that guide in running of the organizations are not effectively practiced.

Millichamp (2002) observes that in a situation where the organization is run by the owner, he makes the formal controls less important since he controls the business. As the business grows and employs more people, the need for internal control rises. Internal controls are particularly important in businesses where the owner does not solely participate in the day to day activities of the business. The system of internal control must be under continuing supervision by management to determine that it is functioning as prescribed and is modified, as appropriate, for changes in conditions.

The control environment has an effect on the effectiveness of the specific control procedures and provides the background against which other controls are operated. A strong control environment, for example, one with tight budgetary controls and an effective internal audit function, can significantly complement specific control procedures and positively influence the financial aspect of a business (Doyle and Sakonsigan 2005).

Kamau (2011) carried out a survey of the listed private companies and the public sector companies in Kenya, with the objective of establishing the practice in regard to design and implementation of internal control in the private and public sector and whether they result in improved efficiency and effectiveness within an organization. He established that there is a positive correlation between the design and implementation of internal control and efficiency and effectiveness of an organization.

The study aimed at evaluating the internal controls of SMEs, ; the case of mobile phone retailers, and its influence on the financial success of the business.

1.3 Objectives of the study

(i) To evaluate the internal controls of small and medium size mobile phone retailers in Nairobi.

(ii) To establish the relationship between internal controls and financial success of small and medium size mobile phone retailers in Nairobi.

1.4 Value of the Study

The study will be of benefit to various stakeholders. To the SMEs owners**,** this study will help them appreciate the importance of having proper internal control systems as part of their operations. The owners are expected to set a compliance culture within the control environment from the top and provide resources for the same. To the administrators and managers, the study will also provide an insight to the importance of internal controls in assisting them achieve the organizational financial goals. The study will be of great importance to academicians and future researchers who might be interested in carrying out further research on the subject matter.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides a theoretical review of internal controls and financial success, empirical studies and summary and conclusions. The chapter is organized to start with a discussion of relevant theories followed by empirical review and a conclusion.

2.2 Theoretical Review

2.2.1 Agency Theory

The agency theory proposes that a firm's main objective is to maximize the shareholders wealth (Letza, Kirkbride, Sun, and Smallman, 2008). The theory states that the organization consists of Principals who are the owners of the economic resources, and Agents who are the managers of the principle's resources (Adams, 1994). An agency relationship is then developed between the two parties. The relationship is defined as a contract under which the Principal engages the Agent to perform some service or duty on his behalf and involves bestowing some authority to the Agent (Meckling and Jensen, 1976)

Agency theory observes that both the Agent and the Principal act rationally and use the contracting process to maximize their wealth (Adams, 1994). The agents do not always share in the Principals objectives and may at times act to further their own interests at the shareholder's expense. This is further heightened by the separation of ownership and decision making authority; the latter which is vested in the Agents. The pursuit of self-interests at the expense of the shareholders is the Agency problem.

To resolve the problem, the shareholders implement initiatives such as internal controls whose implementation safeguards the company's assets, confirm the accounting records and ensure that managers act in the shareholder's interests. The shareholders also attempt to align the managers' interest to theirs by having internal audits and external audits. The internal audit acts as a feedback mechanism to remedy any weakness before they have any adverse effect on the firm's financial performance (Freeman, 2004).

2.2.2 Stakeholders Theory

Committee on the Financial Aspects of Corporate Governance defines corporate governance as the system by which companies are governed and controlled and directed, which is concerned with holding balance between social and economic goals and individual and communal goal. Its aim is to align as nearly as possible the interests of the individuals, corporations and society. Theories of corporate governance are classified as either Shareholder oriented governance theories or Stakeholder oriented governance theories (Hoffman, 2002).

Stakeholder theory states that an organization exists to create value to its stakeholders (Freeman, 2004). A stakeholder is any group or individual who is affected by the achievement of the firm's objectives .The definition was formulated from the base that a modern corporation is affected by a large set of interest groups classified as either primary stakeholders or secondary stakeholders. Primary stakeholders include shareholders, employees, customers, government, suppliers and managers. Secondary stake holders include the media and the general public (Letza, Kirkbride, Sun, and Smallman 2008).

The proponents of the theory argue that profits to the shareholder are residue of the value created to all other stakeholders. To the customers, the company creates good products and services; to the employees, good salaries and a conducive work environment; to the government, paying of duties and taxes and to the suppliers of credit, timely repayment of the loan and interest due (Freeman, 2004).The theory was developed to tackle the limitation in Agency theory.

2.3 Empirical Review

Kaindi (2012) conducted a research on the impact of internal control systems on the financial performance of private hospitals in Nairobi. The objective of the study was to examine the impact of internal control systems on the financial performance of private hospitals in Kenya. The study was carried out on a survey design. The target population of the study was all private hospitals accredited by the National Hospital insurance Fund (NHIF) operating in the county of Nairobi. The sample size was based on the number of beds. The study found out that all components must be included in order for the controls to be effective. The findings also indicated that monitoring had the highest influence on financial performance followed by control environment, information and communication, risk assessment and control activities. The researcher observed that hospitals with internal control systems exhibited better financial position and concluded that internal controls are positively correlated with financial performance.

Kamau (2011) conducted a survey of internal control systems among the listed private companies and the public sector companies in Kenya. The researcher had the objective of establishing the practice in regard to design and implementation of internal control systems in private and public sector and there relation to effectiveness and efficiency of the sectors. The study focused on the components of internal controls, how they are designed, and their similarities and differences in various organizations. The data was collected through questionnaire and focused groups. The researcher established that private sector had stronger controls than public sector and as a result the sector was more effective.

Ngechu (2004) investigated the existence and adequacy of implemented internal controls of computerized accounting information systems in the Kenya banking sector. The results of study reveal that the vast majority of Kenya banks have adequate internal controls in place. The controls enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks.

Keya (2010) examined the role of internal audit in promoting accountability and good management in constituency development fund in Nairobi Province Constituencies. The researcher explored the level of independence, objectivity and competence of the internal audit team. The researcher established that there was too much vested interest and political interference with both finance and audit department hence internal audit has minimal effect has a tool of control.

Ngubia (2010) carried a survey of the inventory control techniques adopted by supermarkets. The study focused on the components of inventory controls, how they are designed, and their similarities and differences in various sized supermarkets. The researcher established that the controls differed as per the size of the supermarket.

Abu-Musa (2004) examined the existence and adequacy of implemented internal controls in the Egyptian banking sector. The results of the survey pointed out that the vast majority of Egyptian banks have adequate internal controls in place. The results also revealed that the computer departments paid relatively more attention to technical security controls; while internal audit departments emphasized more of the behavioral and organizational security controls. The study provides valuable empirical results regarding inadequacies of implemented security controls, and introduced some suggestions to strengthen and improve the security controls in the banking sector.

Chunlan (2009) examined the relationship between internal control and enterprise value. 75 listed companies in Shanghai and Shenzhen Stock Exchange were selected as sample. The researcher established that total asset turnover and return on equality have significant effect to raise the level of internal control; while internal control has significant effect to promote enterprise value. These results indicate that in order to improve internal control, the enterprise should be concerned about financial aspects of company. The model proves positive correlation between internal control and enterprise value.

Wittayapoom (2011) examined how internal control effectiveness creates reliability of financial reporting of the Thai-listed firms. The research attempts to establish the effects of internal control effectiveness on reliability of financial reporting and also the relationships between antecedent variables (risk management efficiency, quality of compliance, potential of intra communication, and continuous monitoring adequacy) and internal control effectiveness. One hundred and twenty four questionnaires completed by Chief Audit Executives of Thai-listed firms were received by data collection mail survey. The statistics used to analysis data were Ordinary Least Square regression. The results showed that internal control effectiveness significantly positively affects reliability of financial reporting.

Khanna and Kaveri (2008) examined the implementation of risk-based internal audit in Indian Banks. To accomplish the goals of the survey, a structured questionnaire was mailed to 43 banks in India, both in the public and private sectors. A total of 25 banks, all public sector banks and six private sector banks, responded to the questionnaire mailed. The findings of the paper point out that the banks have made sufficient progress in introducing risk-based internal audit.

Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in regard with the health sector. The sample was based on 25 main hospitals of Romania. The analysis of the survey answers reveals that the continuous collaboration, based on periodical meetings, between all structures of hospitals management, influence the effectiveness of internal audit department.

2.4 Summary and Conclusion

Internal control is fundamental to the successful operation and day-to-day running of a business as it assists the company in achieving its business objectives. The scope of internal control is very broad. It encompasses all controls incorporated into the strategic, governance and management processes, covering the company's entire range of activities and operations, and in a big way to those directly related to financial operations and reporting. Its scope is not confined to those aspects of a business that could broadly be defined as compliance matters, but extends also to the performance aspects of a business (Keya, 2010).

Internal control effectiveness is important to firm managers, internal auditors, stakeholders all staff members of the firm for decision making and controlling firms to achieve organization purposes and especially a reliability of financial reporting. Therefore, internal control effectiveness is to provide information cues to conduct work and concerned firm performance. This research will examine the relationships between internal control effectiveness and financial performance of an organization. Empirical studies show that high internal control effectiveness is likely to have higher success rate in financial performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the research design and methodology that was employed to gather data for the study. In this chapter, the researcher discussed the research design, population of the study, sampling design, data collection technique and instrument as well as collection procedure and data analysis.

3.2 Research Design

Research design is the general plan of how one goes about discussing the research objectives. There are two main methods which can be used by the researcher to investigate testing of the data collected, namely quantitative and qualitative methods. A quantitative approach is strongly linked to deductive testing of theories through hypothesis while a qualitative approach to research generally is concerned with inductive testing (Saunders, 2003). The research design was quantitative in an attempt to identify the relationship, if any, between internal controls and financial success.

The study used a cross sectional approach. The cross sectional survey design is suitable when a study is largely descriptive and purposes to use sample statistics to make generalization about population parameter. The major purpose of descriptive research is the description of the state of affairs as it exists. (Kothari, 2004)

3.3 Population and sampling

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004) a population is well defined or a set of people, service, elements, events, group of things or households that are being investigated.

The population for the study was small and medium sized enterprises operating in Nairobi Central business area and who are mobile phone retailers. The targeted firms were the ones with more than five employees and had a full time accountant as well as a full time manager running the firm. The firm should have been in existence for between 2 years and five years. The respondents were the finance heads and managers. The population data was obtained from CCK and Nairobi County Council who license~~s~~ the mobile phone retailers to sell mobile phones and provide business licenses respectively.

The sampling plan describes the sampling unit, sampling frame, sample procedures and the sample size of the study. The sampling frame describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2003). Random sampling technique was used to select the sample.

A sample of 30 SMEs was studied. The sample was collected from Communication Commission of Kenya and Nairobi City Council. The sample was matched with data from Kenya National Bureau of Statistics (KNBS) to relate the SME and the number of staff and to ensure the number of staff was 5 and above. From the data obtained from KNBS a random sample was done to obtain a sample of 30 SMEs.

3.4 Data Collection Methods

The study used a self-administered questionnaire. The questionnaire consisted of structured questions relating to field of inquiry with space provided for selection of choices. Closed ended questions had the advantage of collecting quantitative data while open-ended questions allowed for freedom of answering questions in an in-depth manner.

The data was coded to enable responses be grouped into various categories. A descriptive analysis was employed and descriptive statistics to summarize the data which included frequencies and percentages. A multiple regression analysis was used to measure the quantitative data which was analyzed using the statistical package SPSS. The multiple regression equation was as follows:

Multiple Regression Equation

$FS = \beta 0 + \beta 1X1 + \beta 2X2+\beta 3X3+\beta 4X4+\beta 5X5$……………… (1)

Where,

B0, β1, β2, β3, β4, and β5 are the regression co-efficient

FS –Financial Success

X1 – Control environment

X2 – Risk assessment

X3 – Control Activities

X4 – Information and Communication

X5 – Monitoring

Financial success was measured by the level of profitability of the firm over 5 years. On the other hand the overall effectiveness of internal controls was measured by the extent to which control environment, risk assessment, control activities, information and communication and monitoring factors were adhered to in the organization.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATIONS OF FINDINGS

4.1 Introduction

This chapter represents the analysis and the presentation of the study based on the findings from the sample. The sample comprised of small and medium sized mobile phone retailers that are operating in Nairobi area and are registered with CCK and have obtained a license to operate from Nairobi City Council.

The data was classified using descriptive measures, percentages and distribution tables. Tables were used for presentation of findings. Multiple regression analysis was used to provide an answer for the first research question. A total of (30) questionnaire was issued out. 22 respondents successfully completed the questionnaire within the given time frame. This represented a response rate of 73% which was considered satisfactory for subsequent analysis.

4.2 Profile of the Organization

The profile of an organization gives the outline of an organization in terms of the period of existence and the number of employees. The research was conducted mainly on small and medium sized mobile phone retailers that are operating in Nairobi area and are registered with CCK and have obtained a license to operate from Nairobi City Council.

4.2.1 Duration of SME Existence

It has been noted that the greater the number of years an organization has been in existence the more business experience it has acquired.

Table 4.2 Duration of Existence

Period	***Frequency***	***Percentage %***
Less than 3 years	4	18
3 to 5 Years	14	64
6 to 10 years	4	18
Total	**22**	**100**

The study found out that 82% of small businesses surveyed had been in existence for a period of 3 to 10 years. This period is long enough for an organization to establish efficient internal controls which would in turn influence its financial performance.

4.2.2 Number of Employees

There is no universally agreed definition of SMEs. Some analysts define them in terms of their total revenue, while others use the number of employees as an indicator.

Table 4.3: Number of Employees

	Frequency	**Percent%**
0-10	12	54
11-20	4	18
21-40	2	9
41-50	3	14
Over 50	1	5
Totals	22	100%

The researcher found out that the majority of small and medium size mobile phone retailers had a range of 0 to 10 employees as indicated by 54% of the respondents ,18% of the respondents reported that they had 11-20 employees ,9% indicated that they had 41-50 employees while only 5% indicated that they had over 50 employees. This shows that most SMEs prefer to have a fairly small number of employees in order to minimize their cost of operations and increase revenue.

4.3 Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style.

Table 4.4 Control Environment

		1	2	3	4	5	
Organization has well-written policies and procedures manual which addresses its significant activities and unique issues.	Frequency	13	2	0	5	2	22
	Percentage%	59	9	0	23	9	100%
Employees are well acquainted with the policies and procedures that pertain to their job responsibilities.	Frequency	0	5	0	8	9	22
	Percentage	0	23	0	36	41	100%
Employee responsibilities, limits to authority, performance standards, control procedures, and reporting relationships are clear	Frequency	0	6	0	7	9	22
	Percentage%	0	27	0	32	41	100%
Job descriptions exist and clearly state responsibility for internal control.	Frequency	1	7	0	8	6	22
	Percentage%	5	32	0	36	27	100%
Organization has an adequate training program for employees.	Frequency	13	9	0	0	0	22
	Percentage%	59	41	0	0	0	100%
Employee performance evaluations are conducted periodically.	Frequency	15	7	0	0	0	22
	Percentage%	68	32	0	0	0	100%
Appropriate disciplinary action is taken when an employee does not comply with policies and procedures or behavioral standards.	Frequency	0	3	0	10	9	22
	Percentage%	0	14	0	45	41	100%

The findings from the respondents showed that 23% had to a great extent well written policies and procedural manuals while 59% did not have procedural manual at all. 41% responded that employee responsibilities and reporting lines and control procedure were clear to a very great extent while 32% respondents said it was clear great extent. The remaining 27% respondents declared that it was applied in small extent. 27% to a very great extent responded that employees are well acquainted with the policies and procedures that pertain to their job responsibilities, 36% to a great extent while 32% to a small extent and 5% did not at all know of their job descriptions and importance of internal controls. Employees comply with the Conflict of Interest policy and disclose potential conflicts of interest not at all as per 21% of the respondents, and 55% only to a small extent while 24% of the respondents were not sure.

82% of the responses on existence of job descriptions clarity of state of responsibility for internal control were on small extent and 18% were not sure. On training programs 59% did not have at all and 41% had on small extent. Employees performance evaluations are conducted not conducted at all in their organizations as per 68% of the respondents, 7% conducted on small extent.

Appropriate disciplinary action is taken when an employee does not comply with policies and procedures or behavioral standards, at a very great extent as per 41% of the respondents, to a great extent as per 45% of the respondents and at small extent as per 14% of the respondents.

4.4 Risk Assessment

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated.

Table 4.5 Risks Assessment

		1	2	3	4	5	
Technological obsolescence	Frequency	0	15	0	6	1	22
	Percentage%	0	68	0	27	5	100%
Government regulation	Frequency	0	3	0	10	9	22
	Percentage%	0	14	0	45	41	100%
Competition and rivalry	Frequency	0	0	0	6	16	22
	Percentage%	0	0	0	27	73	100%
Internal fraud	Frequency	0	4	0	7	11	22
	Percentage%	0	18	0	32	50	100%
Legal exposure	Frequency	0	4	0	3	15	22
	Percentage	0	18	0	14	68	100%

Table 4.5 on risk assessment depicts that 68% of the respondents accepted that the technology they use is obsolete to a small extent and 27% felt the technology of their processed is obsolete in a great extent and the remaining 5% responded that technology was obsolete in a very great extent. Government regulations were being followed to a great extent by 75% of the respondents and 13% to a great extent and 14% to a small extent.

There is the existence of Competition and rivalry affecting the firms to a very great extent as confirmed by 73% of the respondents and 27% to a small extent. Not to mention the presence of internal fraud to a very great extent as per 55% of the respondents, 32% great extent and 18% small extent. The responses on very great extent of legal exposure is at 68%, 14% great extent and 18% small extent.

4.5 Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Table 4.6 Control Activities

		1	2	3	4	5	
Owners take a direct and active interest in internal controls and the financial affairs and reporting of the business.	Frequency	0	0	0	5	17	22
	Percentage%	0	0	0	23	77	100%
	Frequency	10	9	0	3	0	22
Written policies and procedures govern the business Financial and operation function.	Percentage%	45	41	0	14	0	100%
Use of pre-numbered cheques.	Frequency	0	0	0	0	22	22
	Percentage%	0	0	0	0	100	100%
Are cheques to be signed accompanied by supporting documents?	Frequency	0	0	0	0	22	22
	Percentage%	0	0	0	0	100	100%
Do owners review bank reconciliations?	Frequency	7	4	0	6	5	22
	Percentage%	32	18	0	27	23	100%
Are accounts receivables sub ledgers reconciled monthly?	Frequency	0	3	0	11	8	22
	Percentage%	0	14	0	50	36	100%
Are monthly statements sent to customer?	Frequency	4	15	0	3	0	22
	Percentage%	18	68	0	14	0	100%
Is there any credit policy controlling overdue debts?	Frequency	8	9	0	5	0	22
	Percentage%	36	41	0	23	0	100%
Are petty cash vouchers accompanied by supporting receipts?	Frequency	0	0	0	0	22	22
	Percentage	0	0	0	0	100	100%
Is the person responsible for inventory someone other than the bookkeeper?	Frequency	0	0	0	2	20	22
	Percentage	0	0	0	9	91	100%
Do you maintain a fixed asset register?	Frequency	0	0	0	5	17	22
	Percentage	0	0	0	23	77	100%
Is the purchase of assets approved by owners?	Frequency	0	3	0	6	13	22
	Percentage	0	14	0	27	59	100%

77% respondents affirmed that owners take a direct and active interest in internal controls and the financial affairs and reporting of the business to a very great extent and 23% to great extent. Written policies and procedures govern the business Financial and operation function not at all as per 45% of the respondents, 41% small extent and great extent 14%. 100% of the respondents use pre number cheques and cheques signed are accompanied by supporting documents.

Owners review bank reconciliations to a very great extent as per 23% of the respondents, great extent as per 27% of the respondents, 18% of the respondents to a small extent according to 32% not at all. Accounts receivables are reconciled monthly to a very great extent as per 36% of the respondents, half of the respondents to a great extent and 14% to a small extent.

Monthly statements are not sent to respondents at all as per 18% of the respondents, 68% send to a small extent and 25% to a great extent. The credit policies controlling due debts are 36% not present at all,41% present to a small extent and 23% to a great extent.

All respondents had petty cash vouchers supported by receipts. The person responsible for inventory is not the same carrying out book keeping to a very great extent as per 91% of the respondents and 9% to a great extent.

Fixed register on the other had is maintained to a very great extent as per 77% of the respondents and 23% of the respondents maintained fixed assets to a great extent. Approval to purchase fixed assets is carried out by the owner to a very great extent according to 59% of the respondents, 18% responded that it is done to a great extent while 14% to a small extent.

4.6 Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.

Table 4.7 Information and Communication

		1	2	3	4	5	
Organization gets the information it needs from internal and external sources in a form and timeframe that is useful.	Frequency	3	10	0	7	2	22
	Percentage%	14	45	0	32	9	100%
Organization gets information that alerts it to internal or external risks.	Frequency	7	10	2	3	0	22
	Percentage	32	45	9	14	0	100%
Organization gets information that measures its performance-information that tells the department whether it is achieving its operations, financial reporting, and compliance objectives.	Frequency	0	4	0	10	8	22
	Percentage	0	18	0	45	37	100%
Organization identify, capture, process, and communicate the information that others need (*e.g.*, information used by our customers or other departments)-in a form and timeframe that is useful.	Frequency	0	5	0	7	10	22
	Percentage	0	23	0	32	45	100%
Organization provide information to others that alerts them to internal or external risks	Frequency	16	5	0	1	0	22
	Percentage	73	23	0	4	0	100%
Organization communicates effectively--internally and externally	Frequency	0	3	0	10	9	22
	Percentage	0	14	0	45	41	100%

Only 9% of the respondent get to a very great extent information it needs from internal and external sources in form and time frame that it useful while 32% to a great extent and a majority of 45% to a small extent not to mention 5% do not get at all information it needs from internal and external sources.

Risk alert information is received not at all by 32% of the respondents, to a small extent by 45% of the, 9% of the respondents were not sure and 14% received the communication to a great extent. To a very great 36% of the respondents get feedback on measurement of their performance, while 45% to a great extent and 32% to a small extent.

The information needed by others is identified, captured and communicated by organizations of 45% of the respondents to a very great extent, 32% of the respondent to a great extent and 23% to a small extent. 65% of the respondents do not provide at all to others risk alerts that are internal and external, while 23% to a small extent while 5% to a great extent.

The organizations of the respondent s communicated effectively both internally and externally to a very great extent as per 41% of the respondents, 45% to a great extent and 14% to a small extent.

4.7 Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance.

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing board.

Table 4.8 Monitoring

		1	2	3	4	5	
Self-assessment	Frequency	0	1	0	5	16	22
	Percentage%	0	4	0	23	73	100%
Peer reviews	frequency	3	16	0	2	1	22
	percentage	14	73	0	9	4	100%
Internal audits	frequency	0	3	0	10	9	22
	percentage	0	14	0	45	41	100%

In monitoring and evaluation 73% of the respondents carry out self-assessment to a very great extent, 23% to a great extent and 4% to a small extent.

Peer review is not done at all by 14% of the respondents, to a small extent by 73% of the respondents, to a great extent by 9% of the respondents and to a very great extent 5% of the respondents. To a very great extent 41% of the respondents carry out internal audits, 45% to a great extent and to a small extent as per 14% of the respondents.

4.8. Financial Performance

Financial performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues. It's a general measure of an entity financial health over a given period of time and can be used to compare similar firms across the same industry or sector.

Evaluating the financial performance of a business allows decision makers to judge the results of business strategies and activities in objective monetary terms. The level of performance of a business over a specified period of time is expressed in terms of overall profits and losses during that time.

4.8.1Turnover

Turnover refers to the amount of money – mostly in terms of sales generated by a business in a particular period of time. A quick turnover is desired because it indicates that inventory is not sitting on the shelves for too long.

Table 4.9 Business Turnover (In Kenya Shillings amount)

	2010		2011		2012		2013		Projection 2014	
	Freq	%	freq	%	Freq	%	Freq	%	freq	%
Less than Ksh.1, 000,000	5	23	5	23	3	14	2	9	1	4
Ksh.1, 000,000 – Ksh.4, 999,999	7	32	6	27	8	36	6	27	3	14
Ksh.5, 000,000 – Ksh.9, 999,999	10	45	9	41	9	41	10	45	11	50
Ksh.10, 000,000 – Ksh.49, 999,999	0	0	2	9	2	9	4	18	7	32
Ksh.50, 000,000 – Ksh.99, 999,999	0	0	0	0	0	0	0	0	0	0
Over Ksh.100,000,000	0	0	0	0	0	0	0	0	0	0
Total	22	100	22	100	22	100	22	100	22	100

23% of the SMEs analyzed had a turnover of less than Ksh.1 million in 2010, 32% reported a turnover of between 1 million and Ksh.4,999,999 whereas 45% reported a turnover of between Ksh.5 million and Ksh.9,999,999. None of the firms analyzed had a turnover greater than Ksh.10 million in 2010.

In the year 2011, 23% of the firms reported a turnover of less than 1 million, 27% reported a turnover of between 1 million and Ksh.4,999,999. 41% of the analyzed firms reported a turnover of between Ksh.5 million and Ksh.9, 999, 999, while 9% of the firms had a turnover of between Ksh.10 million and 49,999,999. None of the analyzed firms reported a turnover greater than Ksh.50 million.

In the year 2012, 14% of the firms reported turnover of less than 1 million, 36% reported a turnover of between Ksh.1 million and Ksh.4,999,999. 41% of the analyzed firms reported a turnover of between Ksh.5 million and Ksh.9, 999,999 while 9% of the firms had a turnover of between Ksh.10 million and 49,999,999. None of the analyzed firms reported a turnover greater than Ksh.50 million.

In the year 2013, 9% of the firms reported turnover of less than 1 million, 27% reported a turnover of between Ksh.1 million and Ksh.4,999,999. 45% of the analyzed firms reported a turnover of between Ksh.5 million and Ksh.9, 999,999 while 18% of the firms had a turnover of between Ksh.10 million and 49,999,999. None of the analyzed firms reported a turnover greater than Ksh.50 million.

The turnover projections by respective firms for the year 2014 were that, 4% of the firms would report a turnover of less than 1 million,14% would report a turnover of between 1 million and Ksh.4,999,999 whereas 50% of the analyzed firms would report a turnover of between Ksh.5 million and Ksh.9,999,999, while 32% of the firms had a turnover of between Ksh.10 million and 49,999,999 and just like the previous year's none of the analyzed firms would report a turnover of greater than Ksh.50 million.

4.8.2 Profitability

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. In a competitive market place a business owner must learn to achieve a satisfactory level of profitability.

Table 4.10 Business Profitability before Tax

	2010		2011		2012		2013		Projection 2014	
	freq	%	freq	%	Freq	%	freq	%	freq	%
Less than Ksh.100,000	4	18	3	14	3	14	2	9	1	5
Ksh.100,000 – Ksh.499,999	2	9	4	18	3	14	3	14	2	9
Ksh.500,000 – Ksh.999,999	5	23	5	23	2	9	3	14	5	23
Ksh.1,000,000 – Ksh.2, 999,999	10	45	8	36	9	41	7	32	6	27
Ksh.3,000,000–Ksh4,999,999	1	5	2	9	3	14	4	18	4	18
Ksh.5,000,000 – Ksh.9, 999,999	0	0	0	0	1	5	2	9	3	14
Over Ksh.10,000,000	0	0	0	0	1	5	1	5	1	5
Total	22	100	22	100	22	100	22	100	22	100

Of the firms analyzed, in the year 2010, 18% reported a profit of less than Ksh.100,000, 9% reported a profit of between Ksh.100,000 and Ksh.499,999, 23% reported a profit of between Ksh.500,000 and Ksh.999,999, whereas 45% reported a profit of Ksh.1 million and Ksh 2,999,999. 5% reported a profit of Ksh.3 million and Ksh.4,999,999. None of the firms reported a profit of beyond Ksh.5 million.

In the year 2011, 14% of the firms analyzed reported a profit of less than Ksh.100,000, 18% reported a profit of between Ksh.100,000 and Ksh.499,999, 23% reported a profit of between Ksh.500,000 and Ksh.999,999, 36% reported a profit of Ksh.1 million and Ksh.2,999,999. 9% reported a profit of Ksh.3 million and Ksh.4,999,999. None of the firms reported a profit of beyond Ksh.5 million.

In the year 2012, 14% reported a profit of less than Ksh.100,000, 14% reported a profit of between Ksh.100,000 and Ksh.499,999, 9% reported a profit of between Ksh.500,000 and Ksh 999,999, whereas 41% reported a profit of Ksh.1 million and Ksh.2,999,999. 14% reported a profit of between Ksh.3 million and Ksh.4,999,999. 14% reported a profit of between Ksh.3

million and Ksh.4,999,999. 5% reported a profit of between Ksh.5 million and Ksh.9,999,999 mean 5%while of the firms reported a profit of beyond Ksh.10 million.

In the year 2013, 9% of the firms analyzed reported a profit of less than Ksh.100,000, 14% reported a profit of between Ksh.100,000 and Ksh.499,999, 14% reported a profit of between Ksh.500,000 and Ksh.999,999, and 32% reported a profit of between Ksh.1 million and Ksh 2,999,999. 18% reported a profit of Ksh.3 million and Ksh.4,999,999. 9% reported a profit of between Ksh.5 million and Ksh.9,999,999 mean 5%while of the firms reported a profit of beyond Ksh.10 million.

The projections by respective firms for the year 2014 were that, 5% of the firms analyzed reported a profit of less than Ksh.100,000, 9% reported a profit of between Ksh.100,000 and Ksh 499,999, 23% reported a profit of between Ksh.500,000 and Ksh.999,999, and 27% reported a profit of between Ksh.1 million and Ksh.2,999,999. 18% reported a profit of Ksh.3 million and Ksh.4,999,999. 14% reported a profit of between Ksh.5 million and Ksh.9,999,999 mean 5%while of the firms reported a profit of beyond Ksh.10 million.

4.9 Relationship between Internal Controls and Financial Success

Financial success was measured by the level of profitability of the firm over 5 years. On the other hand the overall effectiveness of internal controls was measured by the extent to which control environment, risk assessment, control activities, information and communication and monitoring factors were adhered to in the organization.

Multiple regression analysis was used to measure the quantitative data which was analyzed using the statistical package SPSS. The multiple regression equation was as follows:

Multiple Regression Equation

FS = β0 + β1X1 + β2X2+β3X3+β4X4+β5X5……………… (1)

Where,

B0, β1, β2, β3, β4, and β5 are the regression co-efficient

FS –Financial Success

X1 – Control environment , X2 – Risk assessment X3 – Control Activities

X4 – Information and Communication X5 – Monitoring

SUMMARY OUTPUT

Regression Statistics		
Multiple R		0.539535
R Square	0.291098	
Adjusted R Square	0.054798	
Standard Error	0.03105	
Observations	1	

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.001187681	0.001188	1.231899	0.34800342
Residual	3	0.002892319	0.000964		
Total	4	0.00408			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.097747	0.03883431	2.51703	0.086402	-0.025840989	0.221335223
X Variable 1	0.001106	0.000996341	1.109909	0.348003	-0.002064954	0.004276651
X Variable 2	0.183339	0.0571	3.625	1.756	0.183339	0.183339
X Variable 3	0.137269094	0.026182746	5.242731	0.03451	0.024613832	0.249924
X Variable 5	0.17333802	0.036971	2.80257	0.9564	0.16430391	0.174348
X Variable 4	0.198117229	0.440899132	0.44935	0.697181	2.095153081	1.698919

Model Summary[b]

Model	Change Statistics			Durbin-Watson
	df1	df2	Sig. F Change	
1	5[a]	0	.0	1.813

The Durbin- Watson statistics is 1.813, this statistic is very close to 2 also supports the validity of regression model. The Durbin- Watson statistics measure the validity of the regression model in a scale of 0 to 4. Two denotes overwhelming evidence in support of the model.

Result revealed that a good number of respondents from SMEs in this study feel that the effectiveness of internal controls systems are average. Respondents agree to effectiveness of internal controls by a mean of 0.001188 (Control environment) and 4.3265 other components of internal controls. However a standard error of 0.0602 is a clear manifestation of varied responses as far as effectiveness of internal control is concerned. Findings showed a strong relationship between effectiveness of Control environment and Return on investment as revealed by coefficient correlation of 0.5395 with a standard error of 0.03105 and effectiveness of the rest of internal control components and Return of investment as revealed by a coefficient Correlation of 0.3028 with a standard error of 0.02918.

The results seem to agree with Putra (2011)'s assertion of the effectiveness of Internal controls is related with financial Success and therefore the hypothesis in objective two; there is a relationship between return on investment and internal control system among SMEs is accepted.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary and conclusions of findings derived from the study. The chapter also details recommendations that can be adopted by small and medium sized mobiles phone enterprises with regard to internal controls and financial performance. Examination and explanation on any variation in the data, comparing the findings with prior research, recommendations for further research, limitation and conclusion are also reviewed.

5.2 Summary and Conclusions

Using multiple regression analysis, the researcher established that there was a strong positive relationship between the internal control, control environment, internal control, control activities, risk assessment, information and communication, monitoring and evaluation and financial success. On the effectiveness of internal controls, the study found out that the efficient internal controls positively influence financial performance.

The study established that in regards to control activities, respondents indicated awareness to a very great extent.77% of the respondents affirmed that owners take a direct and active interest in internal controls, financial affairs and reporting of the business. 100% of the respondents use pre numbered cheques which have been duly signed and are accompanied by supporting documents.

Analysis of control environment established that to a great extent it had an influence on the performance of business entity. Appropriate disciplinary action is taken when an employee does not comply with policies and procedures or behavioral standards, at a very great extent as per 51% of the respondents and to a great extent as per 35% of the respondents.

The monitoring and evaluation were the most implemented components since 73% of respondents carry out self-assessment to a very great and at least 41% have internal audits other than external audits.

On the contrary, the researcher established the level of efficiency and effectiveness of the risk assessment components and information and communication components are implemented at a low level or not implemented at all. The study found out that majority of SMEs does not have financial procedure manuals, especially the ones pertaining to internal control systems. 68% of respondents on risk assessment admitted that the technology they use was obsolete while 73% of the respondents admitted that they have no control of risk from rivalry.

It was also established that mobile phone SMEs have issues on communication and information transmission since they are no hand books issued to the employees. 65% of the respondents also indicated the organization did not provide alerts at all through communication.

Internal control effectiveness is important to managers, auditors, owners and all staff members of the firm for decision making and to achieve the organization purpose and especially the reliability of financial reporting. Internal control is crucial to the successful operation of an entity as it assists the organization in achieving its business objectives. The scope of internal control is very broad. It encompasses all controls incorporated into the strategic, governance and management processes, covering the SME entire range of activities and operations, and in a big way to those directly related to financial operations and reporting.

5.3 Recommendations

From the research finding it was evident that there are no written down policies when it comes to written internal controls and operational policies. It is therefore recommended that SMEs need to be encouraged to start preparing and implementing them.

With the low level of awareness of what constitutes an effective system of internal control there is need to conduct seminars whose main focus is to enlighten employees with no accounting background on internal control and their responsibilities pertaining to controls.

Similarly, small businesses can improve on implementation of the risk assessment component by hiring Certified Public Accountants as consultants on a part time basis to conduct this function. This will enable them to implement internal controls at a lower cost than running an audit department.

New firms whose owners lack background in accounting or with no prior experience in business should be encouraged to join associations that will make them learn from each other and from experienced entrepreneurs.

5.4 Limitation of the Study

Time was a major limitation of this study. Being a full time employee means conducting research only on time agreed with the manager and on weekends. Meanwhile some firms were taking too long to fill the questionnaire.

Obtaining absolute figures from the respondents on the business profitability, turnover and net assets was a challenging task. The researcher had to use a range which affected the level of accuracy of ROI.

5.5 Suggestion for Further Research

The study brought about some areas that require further studies. One of the areas is the relationship between owners' involvement and control in SMEs and financial performance. A similar study in large enterprises and a subsequent comparison would give much insight into the subject of financial success and internal controls.

A comparison of this study and its replica of this study in large organizations in Kenya would give a better understanding of the nature of internal controls and financial success in Kenya. It would be interesting to see whether results of this study would yield similar results if done in another country or continent.

5.6 Implication of the Study on Policy, Theory and Practice

Internal control is a dynamic integral process that is continuously adapting to the changes an organization is facing. Management and personnel at all levels have to be involved to address risks and to provide reasonable assurance of the achievements of the entity financial performance, mission and general achievement.

Small and medium enterprises are less able to implement internal control practices (eg segregation of duties, multiple layers of authority, cross checking of relevant transactions and instructions) because they employ less people due to lack of financial muscle and changing management techniques. To maintain effective internal controls SMEs are constantly turning to outsourced services especially in areas of accounting and security services. This too present their own challenges especially as regard to confidentiality and quality of service provided.

The research established internal control and financial performance are positively correlated. The study further points out that keen attention should be paid to adopt efficient management information system and training of the staff.

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Appendix 1:Letter of Introduction

Dear Sir/ Madam

RE: REQUEST FOR PARTICIPATION IN MY RESEARCH WORK

I am a postgraduate student undertaking a Master of Science in Finance degree at the School of Business, University of Nairobi. In order to fulfill the degree requirement, I am currently conducting a management research project on: "**The Relationship between Internal Controls and Financial Success of Small and Medium Size Mobile Phone Retailers in Nairobi.''**

Your organization has been chosen to participate in this research and I would highly appreciate if you would kindly spare some of your precious time to complete the attached questionnaire for me.

The information sought from you will be treated with utmost confidence, and the result of this study will be used for academic purpose only. Your name and that of the company will not be mentioned in the report.

Thanking you in advance for your assistance.

Yours Faithfully,	Supervisor,
Aluda Jackline Engefu	Mr. Abdulatif Essaje

Appendix 2: Questionnaire

(Please answer all questions)

SECTION A: PROFILE OF THE ORGANIZATION

1. Nature of the Company…………………………………………………………

2. Duration of SME Existence …………

0-5 Years
6-10 Years
11-15 Years
Over 16 Years

3. Indicate the total number of employees in your organization……………………

0-10
11-20
21-30
31-40
41-50
Over 50

SECTION B: CONTROL ENVIROMENT

4. To what extent does each of the following activities affect your organization?

Key: 1. Not at all 2. Small extent 3. Not sure 4. Great extent 5.Very Great extent.

	1	2	3	4	5
Organization has well-written policies and procedures manual which addresses its significant activities and unique issues.					
Employee responsibilities, limits to authority, performance standards, control procedures, and reporting relationships are clear					
Employees are well acquainted with the policies and procedures that pertain to their job responsibilities.					
Employees comply with the Conflict of Interest policy and disclose potential conflicts of interest.					
Job descriptions exist and clearly state responsibility for internal control.					
Organization has an adequate training program for employees.					
Employee performance evaluations are conducted periodically.					
Appropriate disciplinary action is taken when an employee does not comply with policies and procedures or behavioral standards.					

SECTION C: Risk Assessment

5. To what extent does each of the following factors pose risk in the operation of your organization?

Key: 1= Not at all 2= Small extent 3= Not sure

4= Great extent 5= Very Great extent

	1	2	3	4	5
Technological obsolescence					
Government regulation					
Competition and rivalry					
Internal fraud					
Legal exposure					

SECTION D: Control Activities

6. To what extent are each of the following activities utilized as internal control factors in your organization?

Key: 1. not at all 2. Small extent 3. Not sure 4. Great extent 5.Very Great extent.

	1	2	3	4	5
Owners take a direct and active interest in internal controls and the financial affairs and reporting of the business.					
Written policies and procedures govern the business Financial and operation function.					
Use of pre-numbered cheques.					
Are cheques to be signed accompanied by supporting documents?					
Do owners review bank reconciliations?					
Are accounts receivables sub ledgers reconciled monthly?					
Are monthly statements sent to customer?					
Is there any credit policy controlling overdue debts?					
Are petty cash vouchers accompanied by supporting receipts?					
Is the person responsible for inventory someone other than the bookkeeper?					
Do you maintain a fixed asset register?					
Is the purchase of assets approved by owners?					

SECTION E: INFORMATION AND COMMUNICATION

7.Please rate the level of expediency of the activity in your company.

Key: 1= Not at all 2= Small extent 3= Not sure 4=Great extent 5= Very great extent

	1	2	3	4	5
Organization gets the information it needs from internal and external sources in a form and timeframe that is useful.					
Organization get information that alerts it to internal or external risks.					
Organization gets information that measures its performance-information that tells the department whether it is achieving its operations, financial reporting, and compliance objectives.					
Organization identify, capture, process, and communicate the information that others need (*e.g.*, information used by our customers or other departments)-in a form and timeframe that is useful.					
Organization provide information to others that alerts them to internal or external risks					
Organization communicates effectively--internally and externally					

SECTION F: MONITORING

7. To what extent are the following activities conducted in the organization.
1=Not at all 2= small extent 3= Not sure 4= Great extent 5= very great extent

	1	2	3	4	5
Self-assessment					
Peer reviews					
Internal audits					

SECTION G: FINANCIAL SUCCESS

i. What is the approximate level of your total business turnover for the current year? (Please specify in Kenya Shillings amount)

ii. What is the approximate level of your total business turnover for the previous years, 2010, 2011, 2012and 2013?
(Please specify in Kenya Shillings amount)

iii. Which of the following ranges is the best indication of your business net profit (before tax) for the following years?

	2010	2011	2012	2013	2014
Less than Ksh.1, 000,000					
Ksh.1, 000,000 – Ksh.4, 999,999					
Ksh.5, 000,000 – Ksh.9, 999,999					
Ksh.10, 000,000 – Ksh.49, 999,999					
Ksh.50, 000,000 – Ksh.99, 999,999					
Over Ksh.100,000,000					

Appendix 3: List of Small and Medium Size Mobile Phone Retailers in Nairobi

1	ALPHA SHOP	MFANGANO STREET
2	ATLANTIC COMMUNICATIONS	NAIROBI STALLS
3	OCTAGON LIMITED	MOMBASA ROAD
4	NIMAKI LIMITED	STANDARD STREET
5	KARIM KANJI	TOM MBOYA SREET
6	KOOL ELECTRONICS	LUTHULI
7	BARITON COM	LUTHULI
8	BELL KENYA	JEVANJEE
9	NORWOOD BEST SOLUTION	MOI AVENUE
10	NETTA	MOI AVENUE
11	TTIMA ENTERPRISES	CHESTER HOUSE
12	YUZ COMMUNICATION	LUTHULI
13	RIGHT TECHNOLOGY	OLD MUTUAL BUILDING
14	RIKI COMMUNICATIONS	LUTHULI
15	IME COMMUNICATION LTD	MAMA NGINA STREET
16	FAITH BRANDED ELECTRONICS	AGA KHAN WALK
17	TINIA ENTERPRISES	JAMIA MALL
18	KOBA EAST KENYA	VILLAGE MARKET
19	BELLEZAR BEAUTY SHOP	ACCRA ROAD
20	PIATAL COM	LUTHULI
21	PAYLESS LIMITED	MOI AVENUE
22	GONAS BEST LTD	-KENYATTA AVENUE
23	CELLMART COMM	GABERONE
24	CELLUWORLD	MOI AVENUE
25	QUALITY COMMUNICATIONS	TOM MBOYA
26	YOUNG LINE KENYA	LUTHULI
27	YANKEES	LUTHULI
28	ONCO COMMUNICATION	TOM MBOYA
29	REVOLUTION AFRICA	WEST MANYANI ROAD
30	JATEL COMMUNICATIONS	ONGATA RONGAI