EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANK BRANCHES IN BOMET AND KERICHO COUNTIES, KENYA

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UNIVERSITY OF KABIANGA

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DECLARATION AND APPROVAL

Declaration

This Thesis is my original work and has not been presented for the conferment of a degree or for the award of a diploma in this or any other University:

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DEDICATION

This Thesis is dedicated to my family members who have been helpful in funding my MBA studies.

ACKNOWLEDGEMENT

I would like to thank God for giving me the strength and good health all the way as I worked on my Thesis. I also acknowledge the help and support of my supervisors Dr. Isaack Naibei and Dr. Lydia Langat. Thank you for the tireless work and for your time in making sure this study becomes successful. I would like to express my gratitude to my parents for their persistent concern, encouragement and support throughout writing this thesis and in my life in general.

ABSTRACT

Internal control systems in every organization are paramount. Either in profit making organizations or not for profit organizations including churches, schools and nongovernmental organizations, charitable organizations not excluded. In the recent past there has been failure of some of the largest commercial banks in Kenya to prevent loss of funds. This trend puts into question the ability of the internal control systems to steer the commercial banks stability and performance. The recent failures to detect and prevent loss of funds have put pressure on the industry regulators and players to rethink how best the institutions can align their internal control systems and compliance as tools of ensuring stability and positive performance. This study seeks to assess the effect of internal control systems on financial performance of selected commercial banks in selected counties in Kenya. The researcher reviewed related literature which is the work of other scholars who have undertaken the study on the same topic. The main objective was to ascertain the effect of internal control systems on financial performance of selected commercial banks in selected counties in Kenya. The researcher adopted both causal and correlation research designs. The population of 86 staff working in branches of commercial banks in Bomet and Kericho Counties was targeted. 19 Branch managers, 13 Assistant managers, 9 credit managers and 45 tellers working in the branches of commercial banks constituted the respondents for the study. The researcher used data from primary sources of information to aid in the research study. Data collection instrument that the researcher used was the questionnaire. The study used non- probability sampling technique (convenience sampling) to select the counties and branches of commercial banks. Census method was preferred by the researcher to select staffs as the population was small. Therefore, there was no sampling of the staffs. Data was analyzed by use of correlation and descriptive statistics with aid of SPSS. The findings were presented in form of tables, pie charts, bar graphs and percentages. Validity of the instruments was undertaken through a review of the instrument by an expert. Reliability of the instrument was tested by Pearson coefficient of correlation. The results of the reliability test showed correlation coefficients r above 0.70, indicating that the instrument was reliable. The study findings showed that the predictor variables explained 54% of the variability in financial performance as illustrated by coefficient of determination (R Square). The findings also indicated that control environment has a negative and insignificant effect on financial performance $t(72) = -1.874$, $P=0.065$; financial performance positively and significantly relate with risk assessment $t(72) = 2.608$, $P<0.05$; information and communication systems positively and insignificantly affect financial performance $t(72) = 1.034$, $P=0.305$; control activities positively and significantly affect financial performance $t(72) = 3.462$, $P<0.05$ while monitoring negatively and significantly affect financial performance of branches of commercial banks $t(72) = -6.440$, $P<0.05$. The study concluded that all the components of internal control systems affect financial performance either positively or negatively as showed by beta coefficients. The study further concluded that control environment has negative and insignificant effect on financial performance; information and communication systems positively and insignificantly affect financial performance; risk assessment and control activities positively and significantly influence financial performance while monitoring influence financial performance negatively and significantly. The study recommends that components of internal control systems which positively and significantly affect financial performance should be implemented and strengthened by the management. Those components of internal control systems which have positive effect but not significant should be reviewed and those aspects which cause insignificant effect within such components be replaced by alternative and related aspects which are deemed to address such insignificance. Further, those components which affect financial performance negatively and significantly like control environment should be addressed by the management through incorporating aspects which will bring the positive influence on financial performance. The findings of the study were deemed to benefit branches of commercial banks from where the data was collected, as various important recommendations touching on internal control systems would be offered to them.

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LIST OF ABBREVIATIONS

AAA American Accounting Association

AFROSAI African Organization of Supreme Audit Institutions

AICPA American Institute of Certified Public Accountants

ARABOSAI Arab Organization of Supreme Audit

ASOSAI Asian Organization of Supreme Audit Institutions

Ass. Managers Assistant Managers

CA Control Activities

CAMEL Capital adequacy, Asset quality, Management efficiency, Earnings ability and Liquidity

CAROSAI Caribbean Organization of Supreme Audit Institutions

CBK Central Bank of Kenya

CC Candidate Countries

CE Control Environment

Coop- Bank Cooperative Bank

COSO Committee of Sponsoring Organizations

EUROSAI European Organization of Supreme Audit Institutions

FEI Financial Executives International

IC Information and Communication

ICPAK Institute of Certified Public Accountants of Kenya

ICS Internal Control Systems

IIA Institute of Internal Auditors

IMA Institute of Management Accountants

INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
KCB	Kenya Commercial Bank
MON	Monitoring
NACOSTI	National Commission for Science, Technology and Innovation
OLACEFS	Organization of Latin American and Caribbean Supreme Audit Institutions
PASAI	Pacific Supreme Audit Institutions
PAT	Positive Accounting Theory
RA	Risk Assessment
SAIs	Supreme Audit Institutions
TNB	Transnational Bank

DEFINITION OF TERMS

Control Activities according to COSO (2013) are the actions established by the policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities as per this study refer to policies, procedures, and mechanisms put in place to ensure directives of the management are properly carried out to help the organization achieve the set objectives.

Control Environment as per COSO (2013) framework is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. As per this study refers to actions, policies, values and management/leadership styles that influence and set the tone of a firm's daily operations.

Financial Performance is defined by COSO framework subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. For purpose of this study, refers to measurement of the operations of the firm in quantitative terms. This term is also used as a general measure of a firm's overall financial health over a given period of time. Comparability of similar firms across the same industry using financial performance is achievable. The financial performance will be measured in terms of return on equity as per this study.

Internal Controls is defined in COSO (2013) Framework as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” Internal controls according to this study are techniques that firms develop and employ to ensure that the objectives, goals, and mission of the organization are achieved. Information and communication, control activities, assessing and managing risk, control environment and monitoring form the components of internal control.

Information and Communication System is defined by COSO (2013) framework as the overall devices as well as the reports and how such reports are provided to the management. According to this study, it is used to mean the quality of report and timely communication of such reports to management and other stakeholders.

Internal Control Systems as defined by McNally (2013), involve a set of rules, policies and procedures which are implemented by an organization, to provide direction and strengthen adherence to policies. As per this study, it is used to mean all the necessary techniques employed by the organization in order to achieve desirable results.

Monitoring is defined by COSO (2013) as ongoing evaluations, separate evaluations, or some combination of the two and are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, are present and functioning. As per this study monitoring refers to assessing the quality of the internal control structure over time. Since internal controls are processes, it is usually accepted that they need to be adequately monitored in order to assess the quality and the effectiveness of the system's performance over time.

Risk Assessment as per COSO (2013) framework, involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. As per the study risk assessment has been used to mean the assessment of factors that affect possibility of objectives of the organization not being achieved. It refers to the identification and analysis of relevant risks which may prevent achievement of objectives of the organization.

CHAPTER ONE

INTRODUCTION

1.1 Overview

The highlights of this part include the study background, the main aim for the research, the objectives which are specific and the study hypotheses, justification of the research, the significance, scope as well as the assumption relating to this research.

1.2 Background of the Study

Banking organizations all over the world operate under rules, policies and guidelines which direct them to achieving their financial and non-financial goals. Those rules are formulated inside the banks by management while other policies and guidelines are initiated by other governing laws such as the Companies Act prevailing in every country. Rules that are instituted within the banks and other organizations are known as internal controls, (COSO, 2013).

In Europe, European Organized Supreme Auditing Institutions (EUROSAI) belongs to Internationally Organized Supreme Auditing Institutions (INTOSAI). As per INTOSAI (2004), Supreme Auditing Institutes (SAIs) are grouped by INTOSAI and they all contribute towards reviewing and strengthening internal controls.

INTOSAI has other members such as Organization relating to Latin, America and Caribbean Supreme Auditing Institutions (OLACEFs), African Organization forming Supreme Auditing Institutions (AFROSAI), and Arabian Organization forming Supreme Auditing Institutions (ARABOSAI), Asian Organization forming Supreme Auditing Institutions (ASONAI), the Pacific Supreme Auditing Institutions (PASAI) and Caribbean Organization forming Supreme Audit Institutions (CAROSAI).

As defined by INTOSAI (2004), internal control is an important process that is initiated by the management of an entity and personnel which is devised to manage risks as well as to provide such reasonableness and assurance as to orderliness in execution, fostering ethics and acting economical, operating with efficiency and effectiveness, being accountable to obligations, being compliant to laws applicable as well as regulations and keeping resources safe against theft, damage and misuse. All these assurances are directed towards improving performance of organizations.

According to INTOSAI (2004), internal controls change with changes in organizational structure so as to adapt to the organization's change. At all levels, management and personnel involvement in the process of setting the controls help in managing risks as well as providing reasonableness and assurance of realizing the mission and general objectives of an entity.

INTOSAI (2004), recognizes the five types of control systems in an organization and they are monitoring of activities, assessment of risk, control environment, Control activities as well as information and communication System.

In United States of America, there is a commission which has been formed to sponsor organizations, the COSO whose main task is to prevent corporate fraud in all the sectors including the banking sector. Its establishment was to provide some guide to executive and also provide governance to entities which have related issues of governance in the organization, ethics relating to business, the control systems, risk of fraud management in the enterprise as well as the standards of financial reporting. A model of internal control has been formed by COSO which can help corporate entities and institutions to assess their systems of control, (COSO, 2013).

The American Institute of Certified Public Accountants (AICPA), Institute of Internal Auditors (IIA), the Institute of Management Accountants (IMA), the American Accounting

Association (AAA) as well as the Financial Executives International (FEI) gives support to COSO, (AICPA, 1949).

AICPA (1949), defines internal control as the steps and harmonized methods of an organization as well as measures applied within a concern to keep safe its assets, ensure its accounting data is accurate and reliable, promoting efficiency in operations and encouraging compliance to management policies.

According to the framework inscribed in COSO (2013), a process of internal control is affected by a board of directors of an entity, managers as well as other relevant personnel to give reasonableness in assurance regarding tthe realization of effective and efficient operations, reliable financial reporting and adherence to the relevant laws and regulations as the objectives.

COSO (2013) also identifies the types of internal control systems being the control environment, assessment of risk, control activities, information and communication system and monitoring. The Enron Company in USA which was declared defunct from 2001 as a result of the major scandal triggered a necessity to tighten the internal controls and auditors' independence as well as audit committee all of which form part of internal control systems in organizations, (McNally, 2013).

Kenya is part of the members of Africa Organizations of Supreme Audit Institutions (AFROSAI) whose base is the INTOSAI. The Institute of Certified Public Accountants of Kenya (ICPAK) which came into existence in 1978 under the Act of parliament, CAP 531 regulates the conducts of all professional accountants by ensuring that the image of the profession, professionalism by members as well as members' accountability in the accounting profession in Kenya are upheld accordingly, (Kinyua, 2016).

ICPAK members normally get employed across all sectors on the Kenyan economy as well as in abroad. Professional accountants who are licensed by ICPAK are corrected of their misconduct noticed during their practice and discipline is imposed on members who act in a manner which prejudices the professional by the body. Kenya being one of the affiliate members of the AFROSAI, adopts the COSO (2013), integrated framework with the five types of systems of internal control.

ISA 315 defines the systems of internal control as the management policies as well as procedures, that's, internal controls applied by the management of a concern to assist in realizing management's objectives of ensuring in as far as practicable, the orderliness and efficiency in conduct of its business operations, complying with policies by management, keeping the assets safe, preventing and detecting of fraud and error, keeping the accounting records accurately and complete and preparing timely and reliable accounting information.

Certified Accountants of Kenya follow ISA 315 while undertaking their professional work from time to time. ISA 315 which explains the standards on identification as well as assessment of risks relating to significant and material misstatement by understanding the organization with its environment, states that internal controls of a going concern need to be understood by auditors. To obtain some assistance through this process, ISA 315 presents five constituents of an internal control system: the control environment, the entity's assessment of risk, the information and communication system, control activities and the monitoring of controls.

Bomet and Kericho Counties are not an exceptional area upon which the systems of internal control being put in place to control the operations in all public and private commercial organizations. Commercial banks and other companies have measures, rules, policies and guidelines that do support internal operations as to drive those organizations towards achieving their strategic plans and objectives they have set. Commercial banks in Bomet and Kericho Counties comply with prudential guidelines set by the main bank of Kenya (CBK) in line with the Act governing the banks Cap 488. ISA 315 applies to all the banks in the region.

The National Bank in its Financial Report for the year ended 2017 coined that the internal control system's main objective for banks is to continuously check the banking practices and operations to ensure they are compatible with international auditing standards, banking laws, regulations and rules to solve problems that may arise where necessary.

According to Financial reports of banks for the years ending 2014 to 2017, the total entire control over the affairs, operations, business undertakings as well as property and resources of the bank rest in the board of directors of the bank. The report poses that corporate governance is becoming the first concern of the board in exercising its authority because it is accountable and make reports to all shareholders as well as stakeholders of the bank concerning the systems, controls and procedures which they have established and are in place to safeguard and protect their interests and investment in according to the highest corporate governance standards prevailing.

The board of directors of the banks is devoted to ensuring that all relevant and applicable laws, the Banking Act, the new code of practices relating to corporate governance for the public companies which are listed in Kenya and those which are issued by various regulatory bodies like the Capital Markets Authority and the Central Bank of Kenya (CBK) Prudential Guidelines including all the bank's internal policies are fully complied with. The bank has a strong board charter in place as well as critical policies which include conflict of interest and code related to ethics and conduct upon which operations of the board and management in the stewardship of the bank are governed within the scope of the articles and memorandum of association of the banks, (Renox, 2017).

As the center of corporate governance the board is fully committed in making sure that all businesses and operations of the bank are undertaken with the highest level of integrity and in full adherence to the law, principles which are accepted internationally and corporate governance best practices together with business ethics. The board ensures that the bank is adhering to all of its related laws as well as regulations, including the provisions relating to the Banking Act and the prudential regulations issued by the Central Bank of Kenya, (Muthusi, 2017).

1.2.1 Financial performance of banks

Financial performance in banks is measured by different indicators. According to Adhiambo & Member (2012), the level of the asset base; customer's satisfaction and growth of revenue indicate performance of commercial banks. A survey by KPMG (2012), showed that internal controls give appropriate tactics of reducing operational costs to achieve maximum profits.

Dong (2011), defined CAMEL as the framework which can be used to represent specific factors of bank by scholars. CAMEL has been taken to mean that capital is adequate; asset has quality, management is efficient, there is earnings ability by the firm and liquidity of the firm. The ratios indicated by CAMEL are used to measure the overall banking system performance as well as determining the strengths and weaknesses of the bank's operations so that safety and better assets position of a bank is achieved, (Assigwa and Renox, 2017).

Therefore, financial performance depends much on the effort which is exerted by the entire management of banks in attempt to ensure that all its operations in terms of service provisions are streamlined. Strong internal control systems in banks ensure that large number of customers are attracted, existing ones are retained, fraud and errors are detected as early as possible and prevented, quality assets are maintained, liquidity problems are eliminated at all costs, return on investment as well as earnings per share is improved. In general, the overall financial objectives are met with ease.

1.2.2 Internal control systems and financial performance

Internal accounting control systems are applied in all organizations in accordance with the key risks in the operations. Cunningham (2004), explained that internal accounting control system should be in a position to give feedback to the dynamic risks both from internal and external environment of the firm and that they are a means to an end, not an end in itself. The scholar added that the systems of internal controls are affected by human beings and not just the policy manuals or forms.

Positive performance in respect to financial aspects of a firm can be realized through removal of waste in the systems. The degree to which a firm fulfills the objectives and mission which have been set in terms of efficiency, effectiveness and economical is known as the critical success factor. The information which is received through a good system of internal control as a reflection from accounting statements will give an information on financial performance of a firm and its financial position to various consumers of such reports for evaluating the leadership and using it in making investment decisions (Davies, 2005).

The purpose of internal accounting control is to reasonably assure the leaders of an organization that there is achievement of efficiency in operations, timely accounting reporting and adherence to the relevant regulations; promotion of orderliness, economical; ensuring that resources are protected against loss as a result of waste, misuse, misappropriation, errors and fraud, (Kaplan, 2008). Internal controls boost adherence to laws and regulations, contracts and directives by management as well as the developing and maintaining reliable accounting and management data, and presenting accurately that data through timely reporting.

Trivedi (2010), termed financial performance as the process by which the outcomes of policies and operations of a firm are measured in terms of money. Measuring of financial performance represents an important procedure for boosting the work of an organization because these organizations face challenges which are complicated when they are delivering their services. Profitability or liquidity can be utilized in measuring the financial performance of organization.

The definition by the board which is responsible for setting standards internationally on auditing and assurance IAASB (2012), refers internal accounting control systems as the policies as well as procedures which are applied by the entity's management to help realize the objectives of managers by making sure that orderliness and efficiency of business as well as adherence to policies set by management, the detection and prevention of frauds and errors, the safeguarding and protection of assets, the accuracy and completeness of the financial records, and the preparation of reliable and timely financial information are met.

Azizi (2016), states that the management of cooperative is sure that the profit ability of the cooperative can be made to improve by developing new plan as well as implementing stronger, strict and effective systems of internal control in a cooperative. Profitability of cooperatives is believed to be increased by effective internal control systems which will help in a direct way in boosting the cooperative's stability and growth.

1.2.3 Measures of financial performance in commercial banks

Worku (2018), asserts that performance is the measurement of policies and operations of a company in monetary terms. The scholar further asserted that it is a general measurement of the entire financial status of a concern in a particular period of time. Performance can help one to compare the operations of the same types of firms operating in a similar industry. The analysis of financial performance identifies the strengths as well as weaknesses of the firm in terms of finances by relating the items in the statement of financial position and the items in statement of comprehensive income. Joetta (2007) highlighted the purpose of ROE to be the measure of the amount of profit that equity capital generates in the firm. Equity capital is the sum total of all sources of finances excluding loan, either long term loan or short term loan. It can also be the difference of total assets less total liabilities.

From the background, it is noted that changes in internal control systems result to changes in the financial aspects of the firm. As depicted in the case of Enron Company in US, after the collapse in its operations, there arose the need to tighten internal controls such as the aspects of independence of the auditor and audit committee and formation of Sarbanes Oxley Act which would be responsible for instituting strict rules and policies in organizational operations.

Computation of ROE considered the capital requirements provisions as provided by the Basel Committee on Banking Supervision in relation to the Basel Accord III. This is a tool used by banks in managing risks through a provision which sets minimum capital requirement. The tool requires that banks raise their minimum capital to 4.5% of risk weighted assets. Risk weighted assets in this case is the sum of ordinary share capital and reserves and dividing the results by total capital employed.

It is observed in the background that there is a research gap to be filled. The gap existing is that the information in the background does not separate the strength of independent variables working individually and when working in combination and how the two instances of functionality relates to financial performance.

1.3 Statement of the Problem

Internal control systems in the banking sector are the mechanisms and the basis upon which commercial banks streamline their operations towards the direction of achieving their objectives. Most of the bank stakeholders believe that control systems are present and working properly, efficiently and effectively. Most commercial banks are seen to have incorporated the aspects of internal control systems to deter, detect and prevent fraud and errors that might be encountered during banking operations. However, several organizations including banks have been declared defunct and their assets being sold to generate cash to pay for outstanding debts due to creditors or being subjected to take-over by competitors which arise because of their reported low ability to settle financial liabilities as a result of liquidity problems. For example, the Enron Energy Company in USA which was declared defunct in the year 2001 after it had reported the largest bankruptcy in the world and afterwards taken over by another company. In Kenya, the recent case of Imperial Bank which reported a loss of Kshs 80 billion through fraud and currently taken over by KCB is also another example. The most recent case on headlines involved Kshs 11.6 million cash stolen at Barclays Bank's Branches situated in South B (1million), Kenyatta Hospital (4.3 Million) and Buruburu (6.3 million) in Nairobi between 20/4/2019 and 21/4/2019. Another most recent bank on headlines is the National Bank whose operations are in the process of being taken over by the KCB because it is facing liquidity problems and most shareholders are contemplating selling out their holdings in it. Lastly, Chase Bank which was placed under receivership in April 2016 has been ordered for liquidation by the Central Bank of Kenya on 16/04/2021. The problem has been that funds are being lost due to theft yet there are perceived internal controls which are supposed to be functional. Concerns have been raised by various stakeholders and mainly shareholders as to the roles and the extent to which the internal processes are effective and efficient in the industry of banking. Shareholders speculate that presence of ineffective and inefficient internal control mechanisms in banking sector are the cause of firms' financial problems such as loss of money which is being registered in the banking sector. This has triggered the researcher to establish the effect of internal control systems on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

1.4 General Objective of the Study

The purpose of this study was to determine the effect of internal control systems on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

1.5 Specific Objectives

The study was guided by five specific objectives which were to:

i. Ascertain the effect of control environment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.
ii. Establish the effect of risk assessment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.
iii. Assess the effect of information and communication System on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.
iv. Examine the effect of control activities on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.
v. Examine the effect of monitoring on financial branches of commercial banks in Bomet and Kericho counties in Kenya.

1.6 Research Hypotheses

H_{o1}: Control environment has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

H_{o2}: Risk assessment has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

H_{o3}: Information and Communication System has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

H_{o4}: Control activities have no significant effect on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

H_{o5}: Monitoring has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

1.7 Justification of the Study

The study focused in the branches of commercial banks in both Bomet and Kericho Counties because the Banking sector in the two Counties is in progress developing. The entire residents are in need of varieties of banks services which if banking operations are not effective and efficient enough, or if such banks close down, it would bring a lot of inconveniences to the residents.

Various researchers who have done the researches in the same topic have concentrated majorly on bringing out the effects and relationship of internal control systems with financial performance on commercial banks. They have not clearly brought out the extent to which these internal control systems have had effects or relationship with financial performance of commercial banks. This study investigates the extent to which the internal control systems have effect on financial performance or the extent to which ICS relate with financial performance of branches of commercial banks in the two counties where there is limited information on researches regarding the same topic.

1.8 Significance of the Study

This study would benefit the management across all selected commercial banks in the selected counties. Management would use the findings and recommendations to go back and review how strong their internal control systems are. The management would then take initiative action to either strengthen the existing internal controls or incorporating the ones which did not exist for better operations.

The study area has limited information regarding the same topic of research. Thus, the findings of the study would be used by these branches of commercial banks to further ensure quality, effective and efficient operations are achieved. The findings of the study would be used to give recommendations on areas of weaknesses that might be in existence but not yet discovered and that could require proper attention and consideration in matters pertaining internal control systems of commercial banks.

The results from the study would enable the staff across all branches of commercial banks to understand the roles and benefits of systems of internal control in their areas of work. The new staff that would have the first and new experience with banking operations would benefit much from the study by learning the importance of complying with such rules and policies set by internal control systems.

Proper implementations of recommendations from the research by the banks would mean that stronger internal processes as well as procedures would be achieved and that earlier detection and prevention of fraud and errors would be attained. All these would result into proper safeguard of customer interests which those customers have invested into the concern banks. Customers will therefore experience improved quality of banking services and improved customer trust on the banks internal procedures to safeguarding their assets.

This study added to the already published literature. Scholars who would want to undertake research on the same topic and in the same place will have to review this work as one of the related literature to find the knowledge gap as I believe that this work is not exhaustive. This work also suggested areas for further studies and thus, the scholars to follow would find a research topic in future from this work.

1.9 Scope of the Study

This study covered only effect of internal control systems on financial performance of branches of commercial banks in Bomet and Kericho counties, South Rift of Kenya and across the fifteen banks mentioned in this study. The independent variables were; monitoring, assessment of risk, control of activities, control environment as well as the information and communication systems. The dependent variables were Return on Equity. The study covered the period between October and November 2021.

1.10 Assumptions of the Study

The researcher assumed that questionnaires which were to be administered would be returned having been filled accordingly. The respondents were assumed that they would provide appropriate and objective responses to the questions and lastly, the respondents would take the minimum time to complete and return the questionnaires. After data collection, the first assumption was realized in the sense that questionnaires were returned having been filled and that the respondents took the minimum time to fill and return the questionnaires. The researcher made an effort of visiting the respondents' place of work to prompt them to fill the questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This division presents theoretical framework, empirical literature review, conceptual framework and the knowledge gap.

2.2 Review of Related Literature

This section presents the literature related to the study variables which the researcher reviewed. It also provides the knowledge gaps which the current study sought to fill.

Figure 2.1 presents internal control system framework model as provided by COSO (2013). The figure summarizes the five components of internal control system as discussed in the literature review based on the specific objectives of this study.

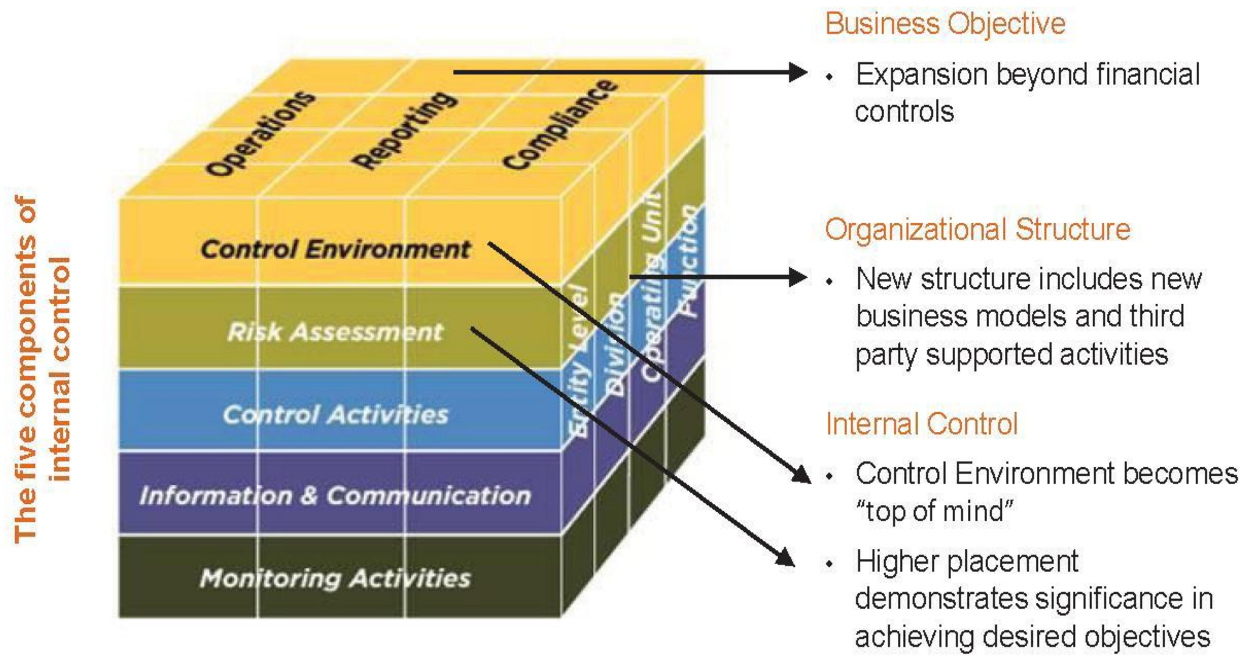

Fig. 2.1: Internal Control System Framework Model

(COSO, 2013)

2.2.1 Effect of control environment on financial performance

In 2007, Nyaga undertook a research to determine whether various components of corporate governance structure related to how manufacturing firms listed in the NSE performed. Primary data was obtained by the scholar from Nairobi Stock Exchange which involved observations for the period between 1996 and 2006. The scholar found out that linear relationship existed between various structures of corporate governance and how manufacturing firms listed in the NSE performed. The scholar's findings in particular showed a linear relationship which was perfect between performance measures and the frequency of boards meetings, monitoring, board composition, percentage of insider holding and CEO compensation.

As per Scott (1995), organizations should adhere to the rules and believe in systems which are prevailing in the environment in order to survive. According to Arwinge (2013), controls are designed and adopted so that legitimacy is achieved and the survival prospects are met. This theory agrees with the corporate governance and the provisions of Sarbanes-Oxley. The Act of 2002 related to Sarbanes-Oxley which resulted from Enron scandal demands that companies need to give report concerning effectiveness of their internal controls during reporting of their performance and position as part of the general attempt to manage fraud and restore integrity in the process of financial reporting.

Mawanda (2008), sought to determine whether internal control systems had effect on financial performance in Ugandan institution for higher learning. The study looked at internal controls from the perspective of internal audit, control environment and control activities and took the measurement of financial performance in terms accountability, liquidity and reporting. The researcher utilized explorative research design in the study. The study findings confirmed internal control system and financial performance being significantly related. Nyaga's study focused on NSE while Mawanda's concentrated on institutions of higher learning. Both studies did not focus on banking institutions. Nyaga's study also focused on two components of internal control systems that's, control environment and monitoring. Likewise, Mawanda's focused on two components that's, control environment and control activities. The two studies did not incorporate the five components of internal control systems so as to make their studies look complete. Nyaga's research was done in Uganda while Mawanda's was done in Kenya.

Olumbe (2012), sought to establish whether internal control and corporate governance related in commercial banks in Kenya. The variables included; equity structure, enterprise, internal supervision and external supervision vacancy, the board of directors and board of supervisors. The study adopted a descriptive research design as the research methodology. The researcher gathered primary data with the help of questionnaires, structured and an interview guide which was unstructured. Data analysis was done by the scholar using linear regression model. The scholar found out that internal control was related to corporate governance. The researcher's study focused only on two components of internal control systems and their relationship with each other but did not touch on the relationship that each component had with financial performance of banks. Both Olumbe and Mawanda did their study in the same country, Kenya.

In the study done by Magara (2013), the findings revealed that independent variables positively and strongly correlated with the dependent variable. The researcher sought to establish whether internal controls had an effect on Kenyan SACCOs' financial performance. The scholar took independent variables as control environment, risk assessment, control activities and monitoring. The scholar collected both primary and secondary data for data analysis. Secondary data was obtained by the scholar from the annual reports that were provided by the SACCOs. The scholar used multiple regression models to analyze data and thereafter concluded that independent variables had a positive contribution to SACCOs' financial performance in Kenya. Both Magara and Olumbe analyzed their data using multiple linear regression models. Magara incorporated the four components of internal control systems leaving out one of the components that's, information and communication. Magara looked on internal controls in relation to financial performance of SACCOS but Olumbe focused on internal controls in relation to corporate governance in commercial banks, Kenya. None of the two studies focused on financial performance of branches of commercial banks.

2.2.2 Risk assessment and financial performance

Pagano (2001), observed the importance of risk management on financial organizations in creating value for customers and shareholders. Corporate finance had connected the benefits of risk management with the hypothesis of maximizing shareholder value. Ali & Luft (2002), further suggested if there was enhancement in shareholder value then a firm would engage in policies of risk management. Therefore, risk management which was effective in either non-banking firms or in banking entities induced expectations of enhancing the value of the firm and the wealth of shareholders. Pagano focused on only one component of internal control system, the risk management and it was deemed to have concentrated much on enhancing the wealth of shareholders. The scholar borrowed much from the agency theory unlike other scholars on similar study.

In an examination of efficiency in relation to risk in large domestic banks in USA, Linbo Fan (2004), found out that efficiency in profit was responsive to credit risk with insolvency risk and never to risk of liquidity or to the loan products mix. HoHahm (2004), did a review of literature about exchange rate including the exposures to interest rate of organizations in Korea. The scholar's study findings revealed that commercial banks in Korea and banking corporations involved with merchandise operations had been subjected to rate of interest as well as risks of rate of exchange to significant extent and that of commercial banks' profitability which was subsequent was significantly related to the extent of exposure associated pre-crisis. HoHalm's study concentrated only on risk management leaving the other four components of internal control systems. One component of internal control system cannot be used to justify that all internal control systems have some relationship with financial performance of any given organization.

Mwangi (2014), sought to establish if risk management had any effect on Kenyan commercial banks' financial performance. The study utilized descriptive study design for the study whereby secondary data was obtained by the scholar from the Central Bank as well as from the financial reports of banks. Multiple regression analysis was used to analyze data. Findings by the scholar confirmed that Kenyan commercial banks' financial performance was strongly and positively related to risk management. Mwangi's study applied multiple regression model to analyze data and therefore similar to Olumbe's and Magara's data analysis. Mwangi's study also resembled HoHalm's as both focused on only one and similar component of internal control system, the risk management.

A study by Kimotho (2015), revealed that credit risk management procedures influenced profitability of the bank positively. The researcher conducted a research to establish whether credit risk management practices had the effect on Kenyan commercial banks' financial performance. The scholar adopted a descriptive research design and collected the primary data using a semi-structured questionnaire. The data was analyzed by the same scholar with the help of Statistical Package for Social Sciences (SPSS) version 20. Kimotho's research design was similar to the study design by Mwangi (2014). Both adopted descriptive research design. Kimotho also, like Olumbe and Mwangi focused on one component of internal control system, the risk management which was insufficient to justify the conclusion that systems of internal control have an effect on commercial banks' financial performance.

In a study to determine whether internal controls had effect on micro-finance institutions' financial performance in Kisumu Central Constituency in Kenya, Oyoo (2014), used descriptive and correlation research design as the study methodology. The scholar collected data which were got from primary and secondary sources. Data from primary data were collected by the researcher with the help of semi-structured questionnaire. Secondary information was obtained by the scholar from audited financial statements of the Micro-Finance institutions studied. The researcher analyzed data using Pearson product moment correlation. The scholar's study findings confirmed that those micro-finance institutions' financial performance positively related to internal controls. Oyoo's study adopted similar research methodology as Olumbe (2012), Mwangi (2014) and Kimotho (2015) studies. The difference across the three studies comes about in the institutions where internal controls were applied.

2.2.3 Effect of information and communication system on financial performance

Mwangi (2012), tried to check whether development of information and communication technology had any impact on commercial banks' financial performance in Kenya. The scholar adopted descriptive research design and collected data through administering of questionnaires from primary sources. Data analysis was done by the scholar with the help of multiple regression models. The scholar found out that electronic banking had a strong positive relationship on the entire performance of banks. The scholar's study findings further suggested that banking done electronically had improved the customer relationship with the bank. The scholar concentrated only on one component of internal control system, the information and communication. This is insufficient to justify the conclusion that systems of internal control have effect on banks' financial performance. Mwangi (2012) study resembles Olumbe (2012), Mwangi (2014) and Kimotho (2015) studies as all adopted descriptive research designs in their studies.

In another study, Etengu and Amony (2016), tried examining if systems of internal control played any role in Ugandan non-governmental organizations system's financial performance. The purpose of their study was to establish if control environment, control activities and monitoring had effect in Ugandan non-governmental organizations' financial performance using International Union for Conservation of Nature as their case study. The survey design was adopted by the scholars for the study and data were obtained by them using structured questionnaire and interview; hence, their study was a primary data study. The scholars' study findings confirmed that each of the measures of internal control that's, control activities, control environment, and monitoring significantly related to financial performance. The scholars recommended through their study for enhancement of control activities, control environment, and monitoring in an attempt to help in improving the financial performance of International Union for Conservation of Nature. The scholars used three components of internal control systems in their study instead of the total five components. Their study focused on an NGO in Uganda which differed with the studies targeting the banking sector.

Mensah (2016), tried to establish if information and communication technology had any effect on Ghanaian rural banks' financial performance. The scholar utilized descriptive research design as the methodology. The scholar collected data from primary and secondary sources. The scholar analyzed data with the help of a regression model. From the scholar's results and findings, the scholar supposed that evidence was significantly enough to conclude that the model which was formulated was for the purposes of prediction. The researcher indicated that the variables and their association gave grounds which were substantial in predicting information and communication technology and its effect on Ghanaian rural banks' financial performance. The scholar concentrated on one internal control out of the five components. Therefore, the conclusion was unjustifiable by the use of a single component of internal controls that internal control systems have effect on financial performance of rural banks in Ghana. Mensah's study methodology is similar to the ones adopted by Olumbe (2012), Mwangi (2012), Mwangi (2014) and Kimotho (2015) studies.

Kariuki (2017), did a study in an attempt to establish whether information communication technology had effect on the Kenyan commercial banks' financial performance. Qualitative research design was employed by the scholar in the study. The researcher used data collection sheet to collect data from the available audited report in the Central Bank of Kenya. The data was analyzed by the scholar with the help of excel and SPSS. Scholar's research findings showed that Kenyan commercial banks' financial performance was affected by information and communication technology. Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012) studies used only a single component of internal control system which is not enough to conclude that internal control systems affect financial performance of institutions where those internal controls have been applied.

Muthusi (2017), studied on internal controls and the effect on Kenyan commercial banks' financial performance. The scholar used research variables which were the control environment, monitoring, control activities, assessment of risk as well as information communication and technology. The methodology which the scholar adopted for the study was descriptive research design. The researcher collected data from the primary and secondary information sources. Data from primary sources was collected by the scholar with the help of the questionnaire. The scholar analyzed the data by using the Statistical Package for Social Science (SPSS) and multiple linear regressions. The research findings by the scholar were presented in tables. The findings from the scholar's study confirmed that the components of internal control were positively and significantly related to the performance of commercial banks in Kenya. Muthusi's study was comparable in the methodology adopted with the studies done by Mwangi (2014) and Kimotho (2015) among others.

A study was conducted by Gift (2018), to check if internal controls had any relationship with Rivers State hospitality organizations' financial performance. The scholar utilized a survey research design as the research methodology. Collection of data was done by the scholar from primary sources with the help of structured questionnaire and from secondary sources with the help of the internet, textbooks and journals. Gift analyzed the data using descriptive statistics, linear regression and correlation model. Study findings by the scholar revealed that internal controls influenced financial performance of hospitality organizations to a significant extent. The scholar's study findings further suggested that a positive relationship existed between internal controls and Rivers State hospitality organizations' financial performance. Gift (2018) and Entengu and Amony (2016) studies adopted similar research methodology, the survey study designs. Gift's study findings were similar to the reviewed scholarly work findings, especially touching on systems of internal control and financial performance of various institutions.

2.2.4 Effect of control activities on financial performance

A study by Barra (2010), was done to determine if internal controls and the penalties had an effect on employees' attempts to act fraudulently. The researcher used analytical method and focused on control activities and monitoring. Collection of data was done by the scholar from managerial and non-managerial employees. The scholar's findings revealed that availability of control activities including separation of duties led to high cost of engaging in fraudulent behaviors on the part of employees. Barra's study focused on one component of internal control system, which is the control activities, like Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012) who also concentrated on one component of internal control systems but a different one. The organization to which the internal controls were applied was not clearly defined in Barra's work unlike in the rest of the scholarly work.

Ejoh and Ejom (2014), carried out a research to check if internal control activities had impact on Nigerian tertiary institutions' financial Performance. The scholars measured the performance using indicators including accountability, liquidity and reporting. The primary data and secondary data sources were used by the scholars to collect data which was used in the study. Primary data was collected by the scholars through structured questionnaires and interviews. Secondary data on the other hand was collected by the scholars from College publications, text books and journals. Presentation of data was achieved by the scholars with the help of tables and percentages. The scholars analyzed data using Pearson moment correlation. From the scholars' findings, it was revealed that all activities were started by the management from the top. Their study found that there existed roles were clearly separated in the finance section of the organization and accounts department and that subordinates work was regularly supervised by superior officers. In addition, the scholars found that external auditors audited the institutions' financial statements annually.

Furthermore, their findings revealed that financial information which was valuable could be accessed by an individual staff without the permission given by the other staff. Generally, their findings as per the study indicated that Nigerian tertiary institutions' financial Performance was not significantly related to internal controls. Ejoh and Ejom study like Mawanda (2008), focused on the institutions of learning only that Mawanda's study was conducted in Uganda while Ejoh and Ejom's research was done in Nigeria. Ejoh and Ejom's findings differed significantly with the findings concluded by the reviewed scholarly work before. Ejoh and Ejom accepted the null hypotheses while the other scholars failed to accept the null hypotheses whose similar specific objectives were being established. Ejoh and Ejom, like Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012), studies focused on a single component of internal control system which could not be sufficient to justify the conclusion whether internal control systems affect financial performance or not.

Wu and Rezende (2014), studied on supervision and its effect on performance of banks. They used Return on Equity and Net Interest Margin to indicate performance of bank in their study. Their results suggested that frequent examination of banks encouraged reduction of risk by way of safer assets being held, and that reduced the loss on loan provisions and that it boosted profitability whose measurement was Return on Equity. On the contrary, their results showed that the frequent examinations did not affect net interest margins. Wu and Rezende, like some of the scholars in the studies reviewed focused on one component of internal controls. To make it far much insignificant to justify the conclusion that internal controls systems affect or do not affect financial performance of banks, Wu and Rezende focused on a single sub-component of control activities whose conclusion was based.

A study was conducted by Adagye (2015), on internal control system and its effectiveness in the Nasarawa State tertiary educational institutions for efficiency, where the scholar took a case of Nasarawa State Polytechnic, Lafia. The study methodology adopted by the scholar was a survey design and a simple closed ended questionnaire was used to collect data. The scholar used judgmental sampling procedure. Data analysis was achieved by the scholar through the use of a CHI–square. The researcher presented data in form of tables and simple percentages. The scholar's study showed that the assets of the institution were physically secured, segregation of duties was fair, transactions were correctly calculated and responsible officer authorized the business transactions appropriately. Adagye's study methodology was similar to the ones adopted by Gift (2018), Entengu and Amony (2016), being a survey study design. Adagye's study was also similar to the studies which were done by Ejoh and Ejom (2014) as well as Mawanda (2008) in the institution in which internal controls were applied being the institutions of learning. The scholar used some of the sub-components of one component internal control system that's, the control activities which made the conclusion not significantly justifiable. Similarly, Ejoh and Ejom (2014), Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012) studies focused on a single component of internal control system which could not be sufficient to justify the conclusion whether internal control systems affect financial performance or not.

The research done by Ngari (2017), found out that vouching, segregation of duties and internal audit had an influence on micro financial institutions' financial performance in Kenya. The scholar did a research to check whether internal controls had the effect on microfinance institutions' financial performance in Kenya. The scholar focused on segregation of duties, vouching and the internal audit as control activities. The researcher adopted positivism philosophy and the study methodology was descriptive survey and diagnostic research designs. The scholar gathered data from the primary and secondary sources. The researcher used the multiple regressions to analyze data and presented the findings in form of tables. Ngari (2017) and Oyoo (2014) studies were similar as both focused on micro-financial institutions with an exception that Ngari did the study across the whole country Kenya while Oyoo narrowed the study to Kisumu County, Kenya. Like Mwangi (2014), Oyoo (2014) and Kimotho (2015) studies, Ngari's study adopted descriptive research design methodology. Ngari's study findings were similar to the findings by the various scholarly work reviewed with an exception of Ejoh and Ejom (2014) findings which revealed otherwise in the tertiary institutions of learning.

The study that Naibei and Kipyego (2017), undertook confirmed that performance of tier (1) one banks significantly related to internal accounting control system. Their study was attempted to check if performance of banking organization in Kericho County, Kericho Town significantly related to internal accounting control systems. The scholars used the agency and contingency theories to guide their study. They collected data from primary sources by the use of questionnaires and analyzed the data by using descriptive statistics and multiple regressions. The scholars' study findings revealed that internal checks, test checks and internal audit improve financial performance of tier (1) banks. Naibei and Kipyego (2017), adopted similar research design as Mwangi (2014), Oyoo (2014), Kimotho (2015) and Ngari (2017) studies, the descriptive research design. Similar to Kariuki (2017), Kimotho (2015), Ejoh and Ejom (2014), Mensah (2014) and Mwangi (2012) studies, Naibei and Kipyego's study used only one component of internal control system with three sub-components as the study independent variables.

The results of the study conducted by Renox (2017), indicated commercial banks' financial performance in Kenya correlated positively and significantly to internal controls and that absence of internal controls results in negative financial performance. The scholar's study attempted to check if commercial banks' financial performance in Kenya correlated positively and significantly to internal controls on internal controls. The methodologies that the scholar adopted for the study were descriptive and cross sectional research designs. The scholar used data obtained from the primary and secondary sources. Structured questionnaire was used to gather primary data by the scholar and presented the same data in form of frequency tables. The scholar analyzed the data using correlation and regression models. The findings of the scholar's study revealed that commercial Banks which implemented internal controls effectively had better financial performance. Renox's methodology was similar to Naibei and Kipyego (2017), Ngari (2017), Kimotho (2015), Mwangi (2014) and Oyoo (2014) studies, being descriptive research design. The findings by Renox were also similar with the findings of the scholars in the studies reviewed with an exception of Ejoh and Ejom (2014) findings.

2.2.5 Effect of monitoring on financial performance

Khawaja (2011), explained monitoring as the feedback mechanism within the framework set by management. The primary objective is to improve management activities and ensure that the funds are used optimally as well as other resources. According to Khawaja, it improves productivity and minimizes operational costs and provides effective services to beneficiaries.

Muio (2012), studied about systems of internal control and if they had any impact on the private hospitals' financial performance in Kenya. The scholar used monitoring, information and communication, control activities, assessment of risk and control environment as the independent variables and utilized descriptive design as the methodology. The researcher collected data for the study through questionnaires and analyzed the same data using linear regression model. The scholar's findings of the study suggested the presence of all the independent variables for the system of internal control to be regarded as effective. The scholar also found that Monitoring affected most the private hospitals' financial performance in Kenya. Control environment came second with the effect, information and communication systems, risk assessment and lastly control activities in that manner. Muio's study independent variables were very similar to the independent variables used by both Muthusi (2017) and Magara (2013). The research methodology which was adopted by Muio was also very similar to the ones adopted by Renox (2017), Naibei and Kipyego (2017), Ngari (2017), Kimotho (2015), Mwangi (2014) and Oyoo (2014) studies, the descriptive research design. Muio's research findings were similar to other scholars' findings except for the findings by Ejoh and Ejom (2014).

Mosago (2013), studied about financial monitoring and the effect on programme performance for international non-governmental organizations in Kenya. The scholar adopted both quantitative and qualitative research designs. The researcher gathered primary data through questionnaires and analyzed the same with the help of Statistical Package for Social Scientist (SPSS) and multiple regressions. The findings from Mosago's study revealed that financial monitoring contributed to INGOs' programme performance positively. From his findings, international non-governmental organizations that frequently performed financial monitoring operated better in their program. The scholar concluded that frequent techniques for monitoring finances must be conducted to improve performance of the programme. Like Naibei and Kipyego (2017), Ejoh and Ejom (2014), Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012), Mosago's study focused on one component of internal control system which is not enough to make some concrete conclusions on whether systems of internal control affect an organization's financial performance.

In a study conducted by Nyakundi (2014), the scholar concluded that financial performance of SMEs in Kisumu is significantly influenced by internal controls and recommendations were that Small and Medium scale Enterprises' operators should be trained on the importance of internal controls. The methodology which the scholar adopted was cross sectional research design and collected data by using structured questionnaires. Data analysis was done using SPSS and multiple linear regression models. Nyakundi's study findings were similar to the findings by the scholarly work reviewed with an exception of Ejoh and Ejom (2014) study findings which showed otherwise.

Likalama and Nyangau (2017), sought to check whether monitoring and evaluation had any effect on Uasin Gishu County schools' financial performance. The scholars adopted descriptive research design in their study and collected data using both primary and secondary data. They analyzed data using Pearson correlation coefficient. The findings of their study indicated that monitoring and evaluation significantly affected financial performance. Likalama and Nyangau's study concentrated on one component of internal control system like Naibei and Kipyego (2017) and others. Likalama and Nyangau's study design was similar to the study design adopted by Renox (2017), Naibei and Kipyego (2017), Ngari (2017), Kimotho (2015), Mwangi (2014) and Oyoo (2014) and Muio (2012) studies. Likalama and Nyangau's study was also similar with the studies conducted by Adagye (2015), Ejoh and Ejom (2014) and Mawanda (2008) as all focused their studies in the institutions of learning.

A study was done by Abdulahi (2017), about systems of internal control and whether they had any effect on financial performance of higher education institutions in Puntland, Somalia. The independent variables used in the study were, internal audit, monitoring as well as information and communication systems. The dependent variable was financial performance. The research methodology adopted by the scholar was quantitative survey design which was similar to

Mosago (2013) and Kariuki (2017) study methodologies. The scholar collected data using Questionnaires and used correlation and regression models to analyze the data. Through the study, the scholar's findings were that managers of the institution were committed to the systems of control and participated actively in activities monitoring and supervising universities and that communications systems were in place. According to Abdulahi, department of internal audit was efficient, staffed, conducted audit activities regularly and generated audit reports on regular basis. The findings by the scholar further revealed that roles were clearly separated, system weaknesses were properly addressed and monitoring had assisted in evaluating and assessing the institution's performance quality over a period of time. Abdulahi's study was similar to the studies done by Likalama and Nyangau (2017), Adagye (2015), Ejoh and Ejom (2014) and Mawanda (2008). All these studies were conducted in institutions of learning only that they were done in different countries and period of time.

2.3 Theoretical Framework

This section presents theories which have been propounded by various scholars to support the various related studies. Theories which have been found relevant to support this research are the Agency Theory, Stakeholder Theory and Stewardship Theory.

2.3.1 Agency theory

Jensen and Meckling (1976), propounded the theory and later by Fama and Jensen (1983). It coins that ownership structure and performance of organization have a relationship. The theory suggests that the owners of business who are principals hire an agent, who is the manager of business and authorize him/her to run a business on their behalf by delegating decision-making. The main concept coming out of the agency theory is the ownership being separated from the control of a firm. Jensen and Meckling noted that there arises a conflict of interest between the agent and principle which is referred to agency problem. Attempts to solve agency problems often results to agency costs for instance, monitoring costs, bonding costs and residual loss. Internal controls which are very effective can be used to address the agency problem and reduce agency costs through removal of information misunderstandings that could exist between an agent and the principal. According to Jensen and Meckling internal controls are directly related with earnings management. Management of earnings is associated with agency problem that inspired the Sarbanes-Oxley legislation in response to manipulation of earnings through creative accounting that led to the collapse in Enron and WorldCom Companies.

Jensen and Meckling criticized this theory saying that it only emphasized on the owners (principals) interests and overlooking other stakeholders' interests e.g. the lenders, investors, customers and others who have got an interest in the business operations. The assumption of this theory is that the agent acts in the best interest of the principal. This is not the case as there would be always issues of unforeseen conflict of interests undeclared by the agent while entering the legal binding agreement, which would compromise the position of the agent in the process of acting on the principal's behalf.

This theory is relevant to the study because the shareholders normally hire an external independent auditor as an agent to act on their behalf. The external auditor performs independent examination and verification of books of accounts; test the effectiveness of accounting systems, policies and procedures and give independent opinion as to whether the information reported presents true and fair view of financial affairs of the business. The owners monitor the overall operations of the business through routine audits by the external auditor who is the agent. The owners then undertake performance review and evaluation of the results thereafter with the help of managers and board of directors who are also acting on behalf of the owners. This theory is linked to the monitoring aspect of internal control system which incorporates the routine audit, performance review and evaluation of overall performance of the business. This theory therefore can be utilized in this study to determine the effect of monitoring on financial performance of selected commercial banks in selected counties in Kenya.

2.3.2 Stakeholder theory

The theory was propounded by Edward Freeman (1983). The theory operates on an assumption that shareholders are not the only ones who have got interests in the business but there are other interested stakeholders in the business. Edward Freeman laid an emphasis that in as much as shareholders' interests are safeguarded, management and the board of directors must also strive to ensure that various parties like employees, customers, lenders of capital and raw materials, the government, potential and current investors and the general community have received fair treatment as well. Edward Freeman observed that the board has a great responsibility of being the guardian of the stake that has been put in the organization concerned by the various parties. Stakeholder theories tend to address the issues relating to moral and ethical behaviors on the part of the management and the board of directors to all parties in the organization. The theory agitates that the needs of stakeholders should be put first in the start of any activity by management.

Edward Freeman saw the limitation of this theory that it puts too much emphasis on stakeholders' welfare to an extent which can compromise the owner's major interest in the business organization. As per Edward Freeman, during the liquidation of the business, the first people to be settled down on their debts are the preferential creditors, followed by the secured creditors, then preference shareholders and lastly the ordinary shareholders. Here, shareholders become the last to be paid out of the amount remaining after all the parties mentioned have been fully paid. If there is no amount of cash remaining then it would mean that ordinary shareholders will suffer (Financial Accounting III, Strathmore University Study Pack).

This theory becomes relevant to this study in the sense that the management and the board of directors form the control environment and this internal control component gears all its efforts towards safeguarding the interest of both stakeholders and shareholders by improving financial performance of the business entity. The board of directors and the managers must inculcate the highest level of integrity, ethics, commitment and competency in discharging their duties in the best interest of the stakeholders and shareholders. This theory is helpful to the study in that it reflects the board of directors and managers' values towards safeguarding the interest of various parties in an organization. These values are incorporated in the control environment, a component of internal control system which is under research study variables. It relates to the specific objective which is to ascertain the effect of control environment on financial performance of selected commercial banks in selected counties in Kenya. It is also related to the topic of this study, effect of internal control systems on financial performance of selected commercial banks in selected counties in Kenya.

2.3.3 Stewardship theory

According to Davis, Schoorman and Donaldson (1997), managers and the board are the stewards entrusted with the responsibility of ensuring that resources of the organization are utilized in a manner that yield maximum returns to shareholders who entrusted such stewardship. The theory assumes that the stewards are delegated all authority and issued resources to exercise power and control of resources in the direction which sees that shareholders derive the maximum level of benefits from the business. This theory is relevant also as it seeks to ensure optimum use of resources for better financial performance. Managers and the board of directors on the other hand form a part of control environment which is one of the components of internal control systems under study by the researcher. With monitoring system, the board and management will assist in hiring the external auditor to undertake routine audits and evaluate effectiveness of procedures and policies in the organization. This theory can be linked to the objectives of this study which are to: Ascertain the effect of control environment on financial performance of selected commercial banks in selected counties in Kenya and determine the relationship between monitoring and financial performance of selected commercial banks in selected counties in Kenya. It is helpful in studying the effect of internal control systems on financial performance of selected commercial banks in selected counties in Kenya.

2.4 Conceptual Framework

A conceptual framework is defined as the result of when a researcher conceptualizes the relationship between variables in the study and shows the relationship graphically or diagrammatically, (Mugenda and Mugenda, 2003). It allows the quantitative conceptualization, operationalization, data collection and measurement of the variables identified (Neuman, 2000). According to Cooper and Schindler (2003), conceptual framework also presents the various variables in the study. This study was guided by the conceptual framework shown in figure 2.2. The conceptual framework of the study consisted of the independent variables; control activities, risk assessment, control environment, Monitoring and information & communication, while the dependent variable was financial performance.

Control activities touched on matters such as policies and procedures in the banks, performance reviews, physical controls information processing and segregation of duties. Risk assessment as a component of internal control system concentrated on issues like risk identification, risk analysis and risk management. Looking on control environment, this component focused on matters relating to integrity values, ethical values, commitment and competence of personnel.

Monitoring component looked at evaluations and routine audits of banking operations. Information and communication component had to do with issues like relevance, reliability, accuracy and timeliness in reporting information.

The following figure presents clearly the conceptual framework showing some relationship between internal control systems as independent variables and the dependent variable being financial performance.

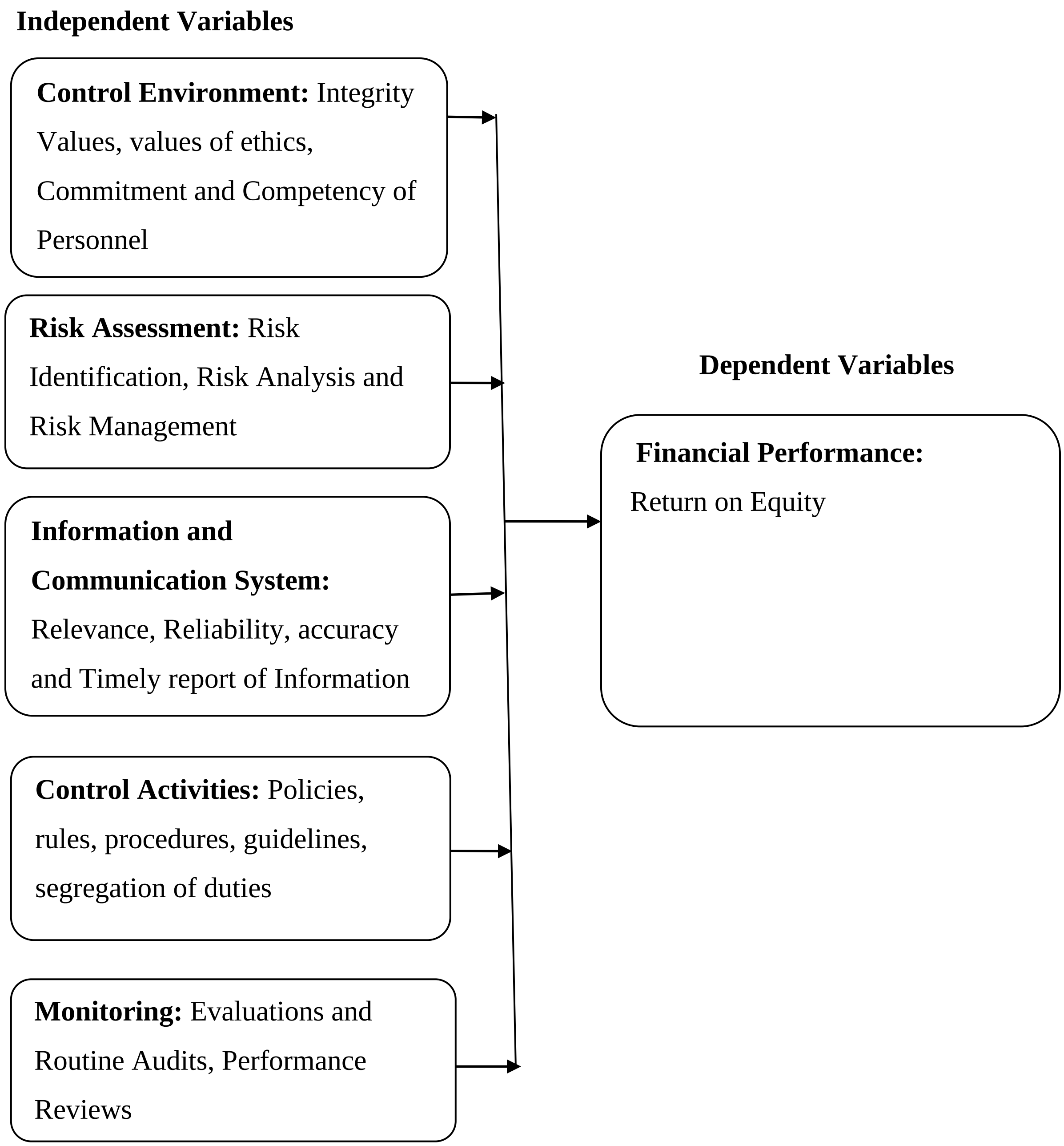

Fig 2.2: Conceptual Framework

(Researcher, 2021)

From figure 2.2, the conceptual framework shows some link between the independent variables; control activities, risk assessment, control environment, monitoring and lastly information and communication with the performance of commercial banks. Control activities are indicated by procedures, techniques, rules, guidelines and policies that help in ensuring that managers respond to reduce risks. In this study the control activities were conceptualized by policies, rules, procedures, guidelines, physical controls and segregation of duties. The study findings indicated control activities has positive relationship with the financial performance (r=0.190; P>0.05).

Risk assessment is a systematic process that seeks to identify potential hazards and identify their implications before they occur. This was conceptualized in the study by risk identification, analysis and risk management. The study found that risk assessment has positive relationship with financial performance (r=0.170; P>0.05).

The control environment: this is the foundation on which functional system of internal control is built. It guides in the achievement of strategically set objectives regarding internal control systems and the support of sufficient financial reporting to all parties (Cohen & Sayag, 2010). Integrity values, the values of ethics, the commitment and competency of personnel all conceptualized the control environment. The findings of the study indicated a positive relationship between control environment and financial performance (r=0.131; P>0.05).

Monitoring is the process of routine checkup on performance of an entity. In this study monitoring was conceptualized using evaluations and routine audits. Information and communication was measured using relevance, reliability and form of information and communication tools. The results of the study show that the relationship between monitoring and financial performance is positive (r= 0.110; P>0.05). The dependent variable for the study was the financial performance of commercial banks that was measured using Return on Equity.

2.5 Identification of Knowledge Gap

Majority of the reviewed studies show that internal control systems have a link with and affect financial performance of commercial banks, using descriptive design methodology to bring out the relationship between the variables. This methodology cannot be used to determine the relationship between variables. Appropriate methodology could be correlation design which gives the magnitude and direction of the relationship among the research variables. Only few scholars like Naibei and Kipyego (2017), have used the causal and correlation design but their variables were limited to one component of internal control, the control activities only. In the studies reviewed, many of the scholars used one component of internal control system, for instance Naibei and Kipyego (2017), Adagye (2015) as well as Ejoh and Ejom (2014), all used one similar component, the control activities. Kariuki (2017) and Mensah (2016) likewise used one similar component, information and communication and lastly Kimotho (2015), who used also one component which was the risk assessment. The researcher will incorporate the five components of internal control systems for this study as per the research objectives. Other scholars used correlation design but in different sectors apart from banking sector. Most of the researches on the same area have been looked at from the broad perspective i.e. commercial banks' financial performance of in Kenya. Muthusi (2017), Kariuki (2017) and Mwangi (2014), are among the scholars whose study perspectives were broad as stated. The researcher narrowed the study to selected commercial banks in selected counties in Kenya, Bomet and Kericho Counties. The researcher adopted correlation and causal designs as the research methodology to bring out clearly the relationship, cause and effect between the study variables.

As shown in the literature review, there is very limited information on the effect of information and communication System as well as risk assessment on financial performance. The study attempts also to study the strength and significance of the relationship between each individual component of internal control system and financial performance, as well as the strength and significance of the relationship between combination of the components and financial performance. These two areas have not been addressed well in literature reviewed. Through this research more knowledge on these areas was added afterwards.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter systematically describes the research design and methodology adopted by the study. It explains procedurally the plan that was used by the researcher to validly, objectively, economically and accurately answer the research questions. This section of the study therefore describes the research design, study location, target population, sampling design including the sample size determination and sampling procedure and data collection involving research instruments, validity and reliability and data collection procedures, mathematical model, method of data analysis and data presentation and finally the ethical concerns.

3.2 Research Design

Babbie (2002), describes research design to be the arrangement and procedure utilized with an aim of solving the research problem. This study adopted both correlation and causal designs. The researcher adopted correlation design as the interest was to establish the nature and magnitude of effect and relationship existing between independent and dependent variables. Causal design was adopted because the design was appropriate in determining the effect of independent variables on dependent variables. Correlation was achieved through analysis of the 5 likert scale data. The data in the likert scale from which each independent variable was measured was then fed into SPSS software which later generated correlation table. The cause and effect was achieved through multiple regression analysis model with aid of SPSS software. Both correlation and causal designs provided proper recommendations to the management of branches of commercial banks in both Bomet and Kericho Counties in Kenya that would enable them realize better financial performance upon working on such recommendations.

3.3 Location of the Study

The study was undertaken in Bomet and Kericho Counties in Kenya. The study focused on branches of commercial banks that have been established in both Counties. The study locations were chosen because the study intended to focus on branches of commercial banks. Furthermore, there is limited information on similar studies done in the banking industry across this region. Again, the service sector in these regions is developing and this study would establish a strong foundation upon which management would ensure more effective and efficient provision of services to residents who are customers in the region. Customers to the banking sector were expected to experience improved services and get assured of safety of their investment and other resources they have put in the banks' custody. The recommendations from the study would enable the banking sector in the regions to grow in size and become stronger and stronger in their going concern status. The study was carried out in the period between October and November 2021.

3.4 Target Population

According to Mugenda and Mugenda (1999), the term target population is the complete set of cases, individuals or objects with some characteristics the researcher wants to generalize the result of the study. Lancaster (2005) coined that population is the full set of cases, people or items which are under investigation. Population is the total collection of elements (people, firms, decisions etc) about which individuals would wish to make some deductions (Cooper and Schindler, 2011).

The study targeted a total of 86 staff working in branches of commercial banks across the two regions of Bomet and Kericho Counties as shown in the tables below. The respondents were branch managers, assistant branch managers, credit managers and tellers as presented in the tables 3.1 and 3.2 respectively.

Table 3.1

Respondents in Each of the Respective Branches of Commercial Banks in Bomet County, Kenya

	Respondents				
Bank	Branch Managers	Ass. Managers	Credit Managers	Tellers	Total
Equity	1	1	1	4	7
Transnational	1	1	1	2	5
KCB	1	3	1	4	9
Family	1	2	-	4	7
National	1	1	-	2	4
Absa	1	-	-	3	4
Co-operative	1	1	-	3	5
Total	7	9	3	22	41

Source: Survey data, 2021

Table 3.2

Respondents in Each of the Respective Branch of Commercial Banks in Kericho County, Kenya

	Respondents				
Bank	Branch Managers	Ass. Managers	Credit Mgr	Tellers	Total
Equity	2	1	1	4	8
Transnational	1	1	1	2	5
KCB	2	1	1	4	8
Family	2	-	-	4	6
Access	1	-	1	2	4
Post Bank	1	-	-	2	3
Faulu	2	-	1	2	5
Co-operative	1	1	1	3	6
Total	12	4	6	23	45

Source: Survey data, 2021

3.5 Sample and Sampling Procedures

'A sample is a proportion of the total items that mirrors the population in all contexts.' The term sample is defined as a smaller group which has been obtained from the accessible population (Mugenda and Mugenda, 2003) or a subgroup of the population you are interested in, (Kumar, 2012). This study did not adopt any sampling design. The researcher employed census method.

3.5.1 Sample size determination

The researcher employed non-probability sampling technique, specifically convenience sampling to select the counties and the branches of commercial banks. The researcher adopted census thereafter to select staff working in those branches because the target population was small. The researcher used census as this is convenient for smaller populations. A census has an advantage of eliminating the sampling error and providing data on all the individuals in the population. Unit of analysis comprised all 86 staff working in branches of commercial banks operating in Bomet and Kericho Counties.

3.5.2 Sampling procedure

The researcher used convenience sampling to select the counties and the branches of commercial banks. Census method was then employed to select staffs who were the target respondents for the study. Therefore, all the elements in the population were considered by the study. The procedure was just picking the entire 86 staff working in the branches of commercial banks across the two counties as respondents for the study.

3.6 Data Collection

The study used the primary sources of information. Primary data is one which is collected directly from the sources and firsthand experience. The main tools that were used were the questionnaires. A questionnaire can be defined as a collection of printed questions which have been deliberately designed and structured to be used in collecting information from respondents. Primary data was collected with the use of closed ended questionnaires by the dropping and picking method in an attempt to save time and financial resources as well as to make it easier for analyzing as they are immediately and readily for use. This method was appropriate because questionnaires are easy to administer and the respondents would be accessed easily and were assumed to have willingness to co-operate and ability to reading and writing independently (Creswell, 2009).

3.6.1 Validity

This is the measuring instrument's ability to measure what it is designed to measure (Kumar, 2012). The instrument's validity is measured by the extent to which outcomes achieved from the analysis of the data represent the phenomena under study (Mugenda & Mugenda, 2003). To make sure that the validity of the instruments is achieved, the study considered both the face value method and content validity of the questionnaire. To ensure validity of the instrument, face value validity was assessed by having all the questions phrased in line with the study objectives to reduce ambiguity to the lowest limit possible. Content validity was undertaken through a review of the questionnaire by an expert in the study field. The researcher sought support, guidance and advice from the supervisor to assist in reviewing the content validity of the data collection instrument.

3.6.2 Reliability

Reliability is the measure of the extent to which a research instrument generates consistent outcomes after repeated trials (Kothari, 2003). It is the ability of an instrument to give consistent results if it is administered to the same respondents twice or more. To establish the reliability of the research instrument, the instrument (questionnaires) were piloted as this would help remove ambiguities in the questions. Test-retest method was used where research instrument was administered to the same respondent twice. After the first administration, a period of time was allowed to pass long enough to ensure that respondents find it hard to remember the responses given in the first round. The results of the score on the two sets of measurements were subjected to correlation in order to obtain an estimated reliability coefficient. The estimation of coefficient was calculated with the help of the Karl Pearson's product moment correlation coefficient given as r. The value of r which was greater than 0.6 was to be considered good and the closer the r-value was to one, the better. Table 3.3 presents the reliability coefficients of the data collection instrument.

Table 3.3

Reliability of Data Collection Instrument

Variable	Coefficient (r)	N (Items)
Control Environment	0.812	7
Risk Assessment	0.723	6
Information and Communication System	0.911	4
Control Activities	0.712	8
Monitoring	0.785	5

(Researcher, 2021)

The findings in Table 3.4 show that Pearson's coefficients are above 0.70 for all the independent variables tested. This indicated that the scale used to measure these variables were consistent and for that case, reliable for the data collection.

3.7 Data Collection Procedures

The researcher adopted a drop and pick method in collecting the data. This method involved handing out the questionnaires to the respondents and picking them at a later date. This method was favored since it allows the respondent to have ample time in giving out their responses.

3.8 Data Analysis and Presentation

The researcher employed the quantitative techniques for analyzing data. Regression and Correlation analyses were incorporated to analyze the variables and their relationship with each other.

3.8.1 Multiple regression model

Internal control systems and financial performance relationship was modeled using the following multiple linear regression models:

$ROE = \alpha + \beta1CEi + \beta2RAi + \beta3ICs + \beta4CAi + \beta5Mon + \varepsilon$

Where: Y = Dependent variable (Financial Performance, ROE)

α = the constant term

β = Regression Coefficients of independent variables

CE= control environment

RA= risk assessment

CA= control activities

ICS = information and communication system

Mon = monitoring

ε= Error Term

The study findings on the model indicated that α=1.057; $\beta1$=-0.930; $\beta2$=1.460; $\beta3$=0.370; $\beta4$=1.931; $\beta5$=-2.508; ε=0.587. The regression equation was the redefined as;

$Y (ROE) = 1.057 - 0.930CEi + 1.460RAi + 0.370CAi + 1.931ICSi – 2.508Moni + 0.587$

The above Model shows that there is an association between dependent and independent variables based on the conceptual framework. Data presentation was achieved by use of tables, bar graphs and pie charts to summarize the study findings.

3.9 Ethical Consideration

The researcher adhered to the ethical issues observed during the research process. The researcher obtained permission from the research institutions such as NACOSTI and the institution where the researcher carried out the research study. University of Kabianga also granted permission to the researcher to undertake the research.

The researcher ensured that privacy of the respondents was not invaded and that confidentiality of information provided from the respondents would be guaranteed to the highest level possible. The researcher upheld the principle of good faith throughout the research process to ensure that the findings would be arrived at in the most objective way.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results which have been obtained from the data collected and analyzed through use of various statistical tools which are the questionnaires and Statistical Package for Social Sciences. Descriptive and inferential statistics have been utilized whereas frequency tables and figures have been used to present the findings of the study for easier interpretation. The chapter also discusses the findings of the research study.

4.2 Presentation of Results

4.2.1 Response rate

The researcher administered a total of 86 structured questionnaires to the branches of commercial banks in both Kericho and Bomet Counties. The targeted respondents were branch managers, assistant managers, credit managers and bank tellers. Out of the total 86 questionnaires which were administered to the respondents, 78 questionnaires were returned and the questions were fully answered. The response rate of the targeted population was as presented in figure 4.1.

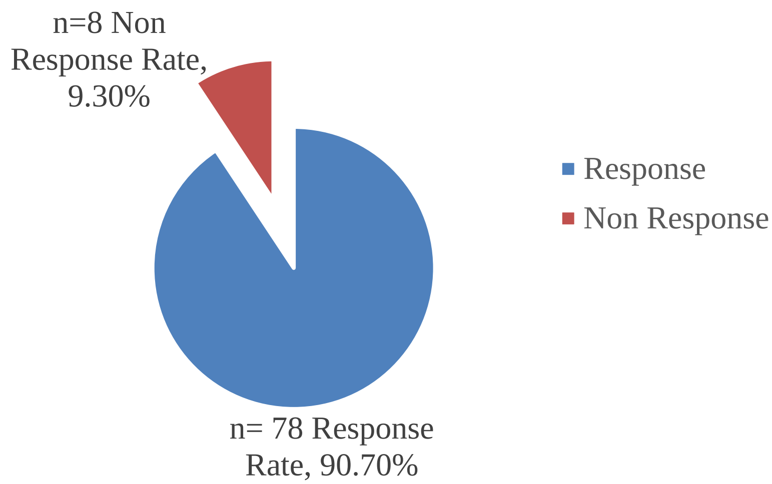

Fig. 4.1: Response Rate

(Researcher, 2021)

As shown by the figure above, the questionnaires which were fully answered and returned by the target respondents were 78. This translated to 90.7% responses of the target population while the number of questionnaires which were not returned was 8, translating to 9.7% of non-responses from the target population. This response rate is good for the study which according to Mugenda and Mugenda (2003), a response rate of 50% is good as a representative of the sample and that above 70% is excellent.

4.2.2 Respondents' highest education qualification

The study sought to establish the respondents' highest education qualification and the responses were as presented in figure 4.2.

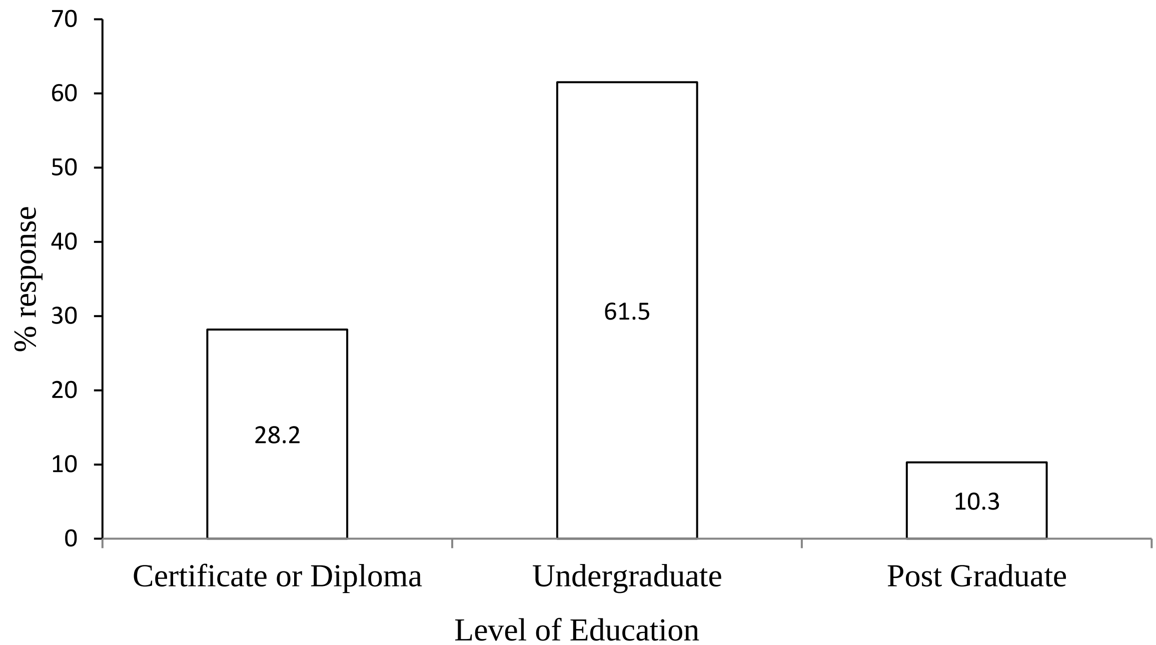

Fig. 4.2: Respondents' Highest Education Qualification

(Researcher, 2021)

From figure 4.2, respondents who were both certificate or diploma holders and working in the selected commercial banks were 22 in number, which translated to 28.2% of the total responses. Undergraduate degree holders working in branches of commercial banks as depicted by the figure were 48 and that translated to 61.5% of the total study responses. Post graduate degree holders who worked in branches of commercial banks added up to 8 in number and translated to 10.3% of the total responses. This implies that the respondents were appropriate for this study.

4.2.3 Time spent working in the bank

This study tried to gather information from the respondents concerning the level of experience they have gained based on the period they have worked in the bank. Responses regarding the time that respondents have spent working in the bank were as presented in figure 4.3.

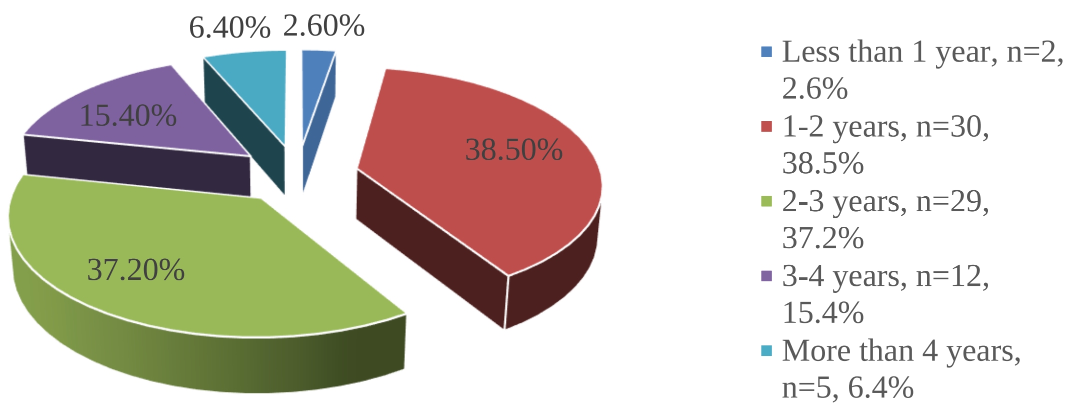

Fig. 4.3 Time Spent Working in the Bank

(Researcher, 2021)

The findings with regards to the period over which the targeted respondents have worked in the respective selected commercial banks were presented as depicted in figure 4.3. According to figure 4.3, staffs who indicated that they have spent less than a year working in the bank was 2, translating to 2.6% of the responses. Those who indicated that they have worked between 1 and 2 years were 30, translating to 38.5% of the responses. The staffs with working experience between 2 and 3 years totaled 29 and that translated to 37.2% of the responses. As indicated in the figure, staffs who have worked for the period between 3 and 4 years were 12 which when translated to a percentage is 15.4% of the total responses. Finally, 5 staffs had worked for a period of more than 4 years translating to 6.4% of the total responses. This implies that most of the respondents had appropriate experience on how internal controls have been operational.

4.2.4 Review of internal control systems

This research also sought to establish the duration with which the selected commercial banks take to perform review of their internal control systems. The findings so obtained were presented in table 4.1.

Table 4.1

Review of Internal Control Systems

Duration	Frequency	Percentage
After 5 years	2	2.6
Annually	33	42.3
Half yearly	21	26.9
When need arises	22	28.2
Total	78	100

(Researcher, 2021)

From the findings presented in the table 4.3, the study shows that majority of the respondents (33 respondents translating to 42.3%) indicated that review of internal control systems was done by banks annually. 22 respondents translating to 28.2% of the total responses indicated that review of internal control systems was done when need arises. 21 respondents with a percentage of 26.9 indicated that review of internal control systems was done on a semiannually basis while 2 of the respondents with the least percentage of 2.6 indicated that review of internal control systems was done after a period of five years. The findings imply that branches of commercial banks review their internal controls at different times and when there is need to do so.

4.2.5 Internal control systems' sufficiency to boost financial performance

This study further tried to seek opinions from the respondents as to whether internal control systems in the selected commercial banks were sufficient and were able to boost financial performance. The findings of the study were as presented in figure 4.4.

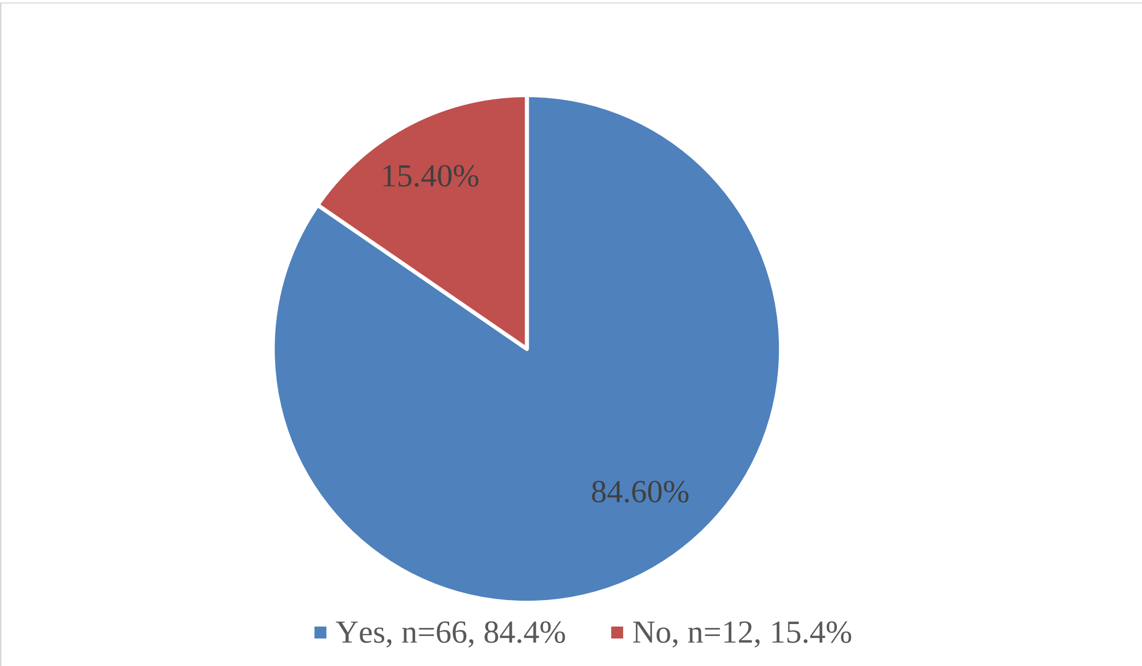

Fig. 4.4: Internal Control Systems' Sufficiency to Boost Financial Performance

(Researcher, 2021)

The findings of the study as depicted in the figure 4.4 indicates that 84.6% of the total responses were of the opinion that internal control systems of the selected commercial banks were sufficient and as a result, boosted financial performance. 15.4% of the responses were of the opinion that internal control systems in branches of commercial banks were not sufficient to boost financial performance.

4.2.6 Internal control systems functioning

The researcher intended to seek responses as to whether the internal control systems in the selected commercial banks were functioning as have been intended for. Through the research findings, the results are as presented in figure 4.5.

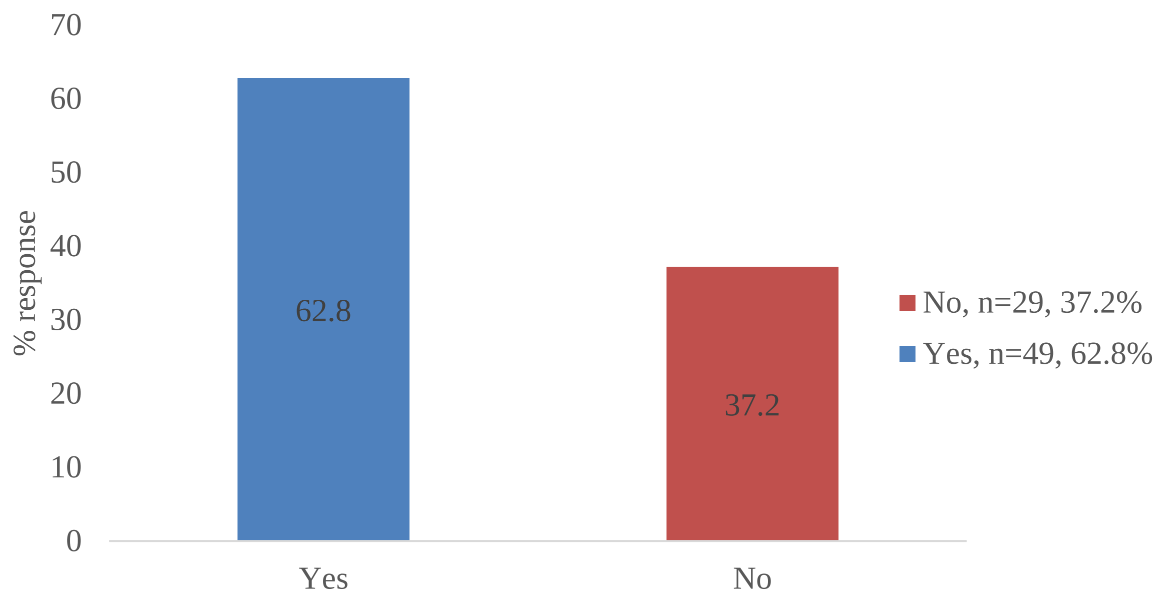

Fig. 4.5: Internal Control Systems Functioning

(Researcher, 2021)

According to figure 4.5, the study findings indicate that 62.8% of the respondents were in agreement that internal control systems functioned as intended. The findings of the study also indicate that 37.2% of the respondents did not agree that internal control systems were functioning as intended.

4.2.7 Effectiveness of internal control systems in relation to financial performance

In an attempt to determine how effective internal control systems are in relation to financial performance, the study sought the responses from the targeted respondents through indicating the degree of effectiveness of internal control systems in selected commercial banks. Likert scale ranging between very ineffective=1 to very effective=5 was used to rate internal control systems. The findings were as presented in table 4.2.

Table 4.2

Effectiveness of Internal Control Systems

Effectiveness	Frequency	Percentage
5. Very Effective	6	7.7
4. Effective	70	89.7
3.Neutral	-	-
2. Ineffective	2	2.6
1. Very Ineffective	-	-
Total	78	100

(Researcher, 2021)

The findings of the study as presented in table 4.2 indicate that majority of the target respondents whose number was 70 and a percentage rate of 89.7 gave their response that internal control systems were effective across the selected commercial banks. Respondents who rated internal control systems as very effective were 6 with a corresponding percentage rate of 7.7 while the number of respondents who rated internal control systems as ineffective were 2 which corresponded to a percentage rate of 2.6.

4.3 Descriptive Statistics

4.3.1 Descriptive analysis of control environment

The study sought to collect views from the respondents using the Likert scale which was assigned values between 1 and 5 indicating the extent to which the respondents agreed with each aspect of internal control systems. The value of 1 on the Likert scale indicated strongly disagree, 2 indicated disagree, 3 indicated neutral, 4 indicated agree and 5 indicated strongly agree.

Table 4.3

Descriptive Analysis of Control Environment

		SD	D	N	A	SA
The level of integrity practiced by operating personnel can influence financial performance in the bank.	N	1	7	5	38	27
	%	1.3	9.0	6.4	48.7	34.6
Strict adherence to the general values of ethics in the bank influences financial performance of the bank.	N	-	3	8	42	25
	%	-	3.8	10.3	53.8	32.1
Financial performance of the bank depends so much on the level of commitment to work by the staff.	N	3	4	8	39	24
	%	3.8	5.1	10.3	50.0	30.8
Management competency in handling the banking system influences the bank financial performance.	N	5	8	7	37	21
	%	6.4	10.3	9.0	47.4	26.9
Control environment generally influence the financial performance of commercial banks.	N	-	10	8	38	22
	%	-	12.8	10.3	48.7	28.2
The board is competent and strongly committed to implementation of recommendations from the internal audit department for the betterment of the bank's financial performance.	N	1	7	10	41	19
	%	1.3	9.0	12.8	52.6	24.4

(Researcher, 2021)

According to Table 4.3, the results showed that 1 (1.3%) of the respondents strongly disagreed with the statement that the level of integrity practiced by operating personnel can influence financial performance in the bank. 7 (9%) of the respondents disagreed with the same statement, 5 (6.4%) of the respondents were neutral on the statement while 38 (48.7%) and 27 (34.6%) of the responses agreed and strongly agreed respectively.

The findings also indicated that 3 (3.8%) of the responses disagreed on the statement that strict adherence to the general values of ethics in the bank influences financial performance of the bank. 8 (10.3%) of the respondents did not disagree, agree nor strongly agree, 42 (53.8%) agreed while 25 (32.1%) strongly agreed with the statement. The study also found that 3 (3.8%) of the responses strongly disagreed with the statement that financial performance of the bank depends so much on the level of commitment to work by the staff. 4 (5.1%) of the respondents disagreed, 8 (10.3%) were neutral, 39 (50%) agreed while 24 (30.8%) strongly agreed with the statement.

The findings of the study indicate that 5 (6.4%) of the respondents strongly disagreed with the statement that management competency in handling the banking system influence the bank financial performance. 8 (10.3%) gave their response that they disagreed, 7 (9%) were neutral on the statement and 37 (47.4%) indicated they agreed while 21 (26.9%) strongly agreed with the statement. On whether control environment generally influence the financial performance of commercial banks, the findings indicated that 10 (12.8%) disagreed, 8 (10.3%) were neutral, 38 (48.7%) agreed whereas 22 (28.2%) of the respondents strongly agreed with the statement.

The responses on whether the board is competent and strongly committed to implementation of recommendations from the internal audit department for the betterment of the bank's financial performance indicate that 1 (1.3%) strongly disagreed, 7 (9.0%) disagreed and 10 (12.8%) of the respondents were neutral. The responses further indicate that 41 (52.6%) agreed while 19 (24.4%) strongly agreed with the statement.

4.3.2 Descriptive analysis of risk assessment

Table 4.4

Descriptive Statistics for Risk Assessment

		SD	D	N	A	SA
Risk identification in a proper manner by the organization has the influence on the financial performance of the bank.	N	5	2	11	43	17
	%	6.4	2.6	14.1	55.1	21.8
Management has criteria for identification of which risks to the bank are most critical and this has influenced financial performance to great extent.	N	-	3	8	42	25
	%	-	3.8	10.3	53.8	32.1
Management has put in place mechanisms for mitigation of critical risks that may lead to bank's loss and therefore influencing the financial performance of the bank.	N	7	11	11	35	14
	%	9.0	14.1	14.1	44.9	17.9
The general risk assessment exercise in the bank has resulted in improved financial performance of the bank.	N	2	5	9	41	21
	%	2.6	6.4	11.5	52.6	26.9
Management commitment to installation of risk management techniques help in boosting the financial performance of the bank.	N	7	3	15	36	17
	%	9.0	3.8	19.2	46.2	21.8

(Researcher, 2021)

As per Table 4.4, the study found that5 (6.4%) of the respondents strongly disagreed with the statement that risk identification in a proper manner by the organization has the influence on the financial performance of the bank. 2 (2.6%) disagreed, 11 (14.1%) were neutral and 43 (55.1%) agreed whereas 17 (21.8%) of the responses indicated strongly agree. The findings also show that 9 (11.5%) of the responses disagreed with the statement that management has criteria for identification of which risks to the bank are most critical and this has influenced financial performance to great extent. 7 (9%) were neutral, 44 (56.4%) agreed while 18 (23.1%) of the responses indicated strongly agree.

On whether management has put in place mechanisms for mitigation of critical risks that may lead to bank's loss and therefore influencing the financial performance of the bank, 7 (9%) of the responses indicate strongly disagree. 11 (14.1%) of the respondents disagreed, 11 (14.1%) were neutral, 35 (44.9%) agreed while 14 (17.9%) strongly agreed. The study as well shows that 2 (2.6%) of the responses strongly disagreed that the general risk assessment exercise in the bank has resulted in improved financial performance of the bank. 5 (6.4%) disagreed, 9 (11.5%) were neutral, 41 (52.6%) agreed while 21 (26.9%) strongly agreed.

The results of the findings show that 7 (9%) of the respondents strongly disagreed with statement that management commitment to installation of risk management techniques help in boosting the financial performance of the bank. 3 (3.8%) disagreed, 15 (19.2%) were neutral, 36 (46.2%) agreed whereas 17 (21.8%) strongly agreed.

4.3.3 Descriptive analysis of information and communication system

Table 4.5

Descriptive Analysis of Information and Communication System

		SD	D	N	A	SA
Management has good system of information and communication across all the bank departments and as a result, influences financial performance of the bank.	N	6	7	5	51	9
	%	7.7	9.0	6.4	65.4	11.5
Relevant information to the relevant department in the bank has a great tendency to influence the overall financial performance of the bank.	N	2	12	9	42	13
	%	2.6	15.4	11.5	53.8	16.7
Financial performance of the bank depends on reliability of information and communication made by top management in the department of financial preparations.	N	-	9	13	42	14
	%	-	11.5	16.7	53.8	17.9
The accuracy of the bank financial performance is greatly depended upon the availability of accurate information and communication within the bank.	N	6	8	15	41	8
	%	7.7	10.3	19.2	52.6	10.3
There exists the relationship between bank financial performance and timely report of information.	N	7	9	13	38	11
	%	9.0	11.5	16.7	48.7	14.1

(Researcher, 2021)

As shown by Table 4.5, 6 (7.7%) of the respondents strongly disagreed to the statement that management has good system of information and communication across all the bank departments and as a result, influences financial performance of the bank. 7 (9%) disagreed, 5 (6.4%) were neutral, 51 (65.4%) agreed while 9 (11.5%) strongly agreed. The findings further show that 2 (2.6%) of the respondents strongly disagreed with statement that relevant information to the relevant department in the bank has a great tendency to influence the overall financial performance of the bank. 12 (15.4%) disagreed, 9 (11.5%) were neutral, 42 (53.8%) agreed whereas 13 (16.7%) strongly agreed with the statement.

The responses also show that 9 (11.5%) disagreed with the statement that financial performance of the bank depends on reliability of information and communication made by top management in the department of financial preparations. 13 (16.7%) were neutral, 42 (53.8%) agreed while 14 (17.9%) strongly agreed. 6 (7.7%) strongly disagreed with the statement that the accuracy of the bank financial performance is greatly depended upon the availability of accurate information and communication within the bank, 8 (10.3%) disagreed, 15 (19.2%) were neutral, 41 (52.6%) agreed whereas 8 (10.3%) of the responses indicated strongly agree.

The results indicate that 7 (9%) of the respondents strongly disagreed with the statement that there exists the relationship between bank financial performance and timely report of information. 9 (11.5%) disagreed, 13 (16.7%) were neutral, 38 (48.7%) agreed while 11 (14.1%) of the responses indicated strongly agree.

4.3.4 Descriptive analysis of control activities

Table 4.6

Descriptive Statistics for Control Activities

		SD	D	N	A	SA
Good policies established in the bank, observed by all departments accordingly and implemented properly can influence financial performance of the bank in one way or the other.	N	3	1	15	38	21
	%	3.8	1.3	19.2	48.7	26.9
Strict adherence to the laid down rules by all staff of the bank can result in better financial performance and vice versa.	N	1	5	16	37	19
	%	1.3	6.4	20.5	47.4	24.4
Properly designed procedures of handling various documents in the bank can lead to desirable financial performance of the bank.	N	-	3	12	43	20
	%	-	3.8	15.4	55.1	25.6
Guidelines observed by the staff in daily banking operations have some relationship with financial performance of the bank.	N	-	1	13	41	23
	%	-	1.3	16.7	52.6	29.5
Segregation of duties in the banking sector has resulted to employee improved efficiency thus, translating to positive influence on financial performance.	N	1	8	6	46	17
	%	1.3	10.3	7.7	59.0	21.8

(Researcher, 2021)

As shown on Table 4.6, 3 (3.8%) of the respondents strongly disagreed with the statement that good policies established in the bank, observed by all departments accordingly and implemented properly can influence financial performance of the bank in one way or the other. 1 (1.3%) disagreed, 15 (19.2%) were neutral, 38 (48.7%) agreed while 21 (26.9%) strongly agreed with the statement. 1 (1.3%) of the respondents strongly disagreed with the statement that strict adherence to the laid down rules by all staff of the bank can result in better financial performance and vice versa. 5 (6.4%) disagreed, 16 (20.5%) were neutral, 37 (47.4%) agreed while 19 (24.4%) strongly agreed.

The views on statement that properly designed procedures of handling various documents in the bank can lead to desirable financial performance of the bank indicated that 3 (3.8%) of the respondents disagreed, 12 (15.4%) were neutral, 43 (55.1%) agreed while 20 (25.6%) strongly agreed with the statement. 1 (1.3%) of the responses disagreed with the statement that guidelines observed by the staff in daily banking operations have some relationship with financial performance of the bank. 13 (16.7%) were neutral, 41 (52.6%) agreed while 23 (29.5%) strongly agreed.

The responses indicated that 1 (1.3%) of the respondents strongly disagreed with statement that segregation of duties in the banking sector has resulted to employee improved efficiency thus, translating to positive influence on financial performance. 8 (10.3%) disagreed, 6 (7.7%) were neutral, 46 (59%) agreed whereas 17 (21.8%) strongly agreed.

4.3.5 Descriptive Analysis of Monitoring

Table 4.7

Descriptive Statistics for Monitoring

		SD	D	N	A	SA
The overall regular monitoring of the bank operations and alignment to objectives greatly influences the financial performance of the bank.	N	3	12	16	30	17
	%	3.8	15.4	20.5	38.5	21.8
Frequent evaluation of the bank internal control systems has significant influence on the financial performance of the bank.	N	4	7	15	33	19
	%	5.1	9.0	19.2	42.3	24.4
There is a significant relationship between frequent performance reviews and financial performance of the bank.	N	7	7	12	36	16
	%	9.0	9.0	15.4	46.2	20.5
Routine audits of financial statements of the bank and processes by external independent auditor have a great influence on financial performance of the bank.	N	5	7	17	31	18
	%	6.4	9.0	21.8	39.7	23.1
Management has proper tools for monitoring and evaluation which can assist in boosting financial performance of the bank.	N	7	10	12	34	15
	%	9.0	12.8	15.4	43.6	19.2

(Researcher, 2021)

Table 4.8 indicates that 3 (3.8%) of the respondents strongly disagreed with the statement that the overall regular monitoring of the bank operations and alignment to objectives greatly influences the financial performance of the bank. 12 (15.4%) disagreed, 16 (20.5%) were neutral and 30 (38.5%) agreed. 17 (21.8%) strongly agreed with the statement. 4 (5.1%) of the responses strongly disagreed with the statement that frequent evaluation of the bank internal control systems has significant influence on the financial performance of the bank. 7 (9%) disagreed, 15 (19.2%) were neutral, 33 (42.3%) agreed whereas 19 (24.4%) strongly agreed.

The results showed that 7 (9%) of the respondents strongly disagreed with the statement that there is a significant relationship between frequent performance reviews and financial performance of the bank. 7 (9%) disagreed, 12 (15.4%) were neutral, 36 (46.2%) agreed while 16 (20.5%) strongly agreed. 5 (6.4%) of the respondents strongly disagreed with the statement that routine audits of financial statements of the bank and processes by external independent auditor has a great influence on financial performance of the bank. 7 (9%) of the respondents disagreed, 17 (21.8%) were neutral, 31 (39.7%) agreed while18 (23.1%) strongly agreed.

The findings indicate that 7 (9%) of the respondents strongly disagreed with the statement that management has proper tools for monitoring and evaluation which can assist in boosting financial performance of the bank. 10 (12.8%) of the respondents disagreed, 12 (15.4%) were neutral, 34 (43.6%) agreed whereas 15 (19.2%) strongly agreed with the statement.

4.3.6. Effectiveness of internal control systems in relation to financial performance

The study sought the views of management and staffs working in the selected commercial banks concerning the extent to which internal control systems are effective in relation to financial performance. Data was collected using a likert scale with values ranging from 1 to 5 where the value of 1 was used to indicate the degree of strongly ineffective, 2 indicated ineffective, 3 indicated a degree of uncertainty, 4 indicated effective while 5 indicated strongly effective. The results obtained from responses which were collected were analyzed using means and their standard deviations to ascertain variations of each response from the overall mean of responses. The results of the mean are shown on a scale interval where a mean value of 1 indicates strong level of ineffectiveness, 1.1- 2.0 indicate ineffectiveness, 2.1- 3.0 indicate uncertainty, 3.1- 4.0 indicate effectiveness while mean values more than 4.1 indicate strong effectiveness. Data findings were as presented in Table 4.8.

Table 4.8

Effectiveness of Internal Control Systems in Relation to Financial Performance

	Mean	**Standard Deviation**
Effectiveness of Internal Control Systems	4.026	.426

(Researcher, 2021)

As depicted in Table 4.8, the respondents gave the views and they agreed that internal control systems were effective in relation to financial performance of the selected commercial banks. This was evidenced with a mean of 4.026 and a standard deviation of 0.426.

4.3.7 Control environment

The study sought to ascertain the effect of control environment on financial performance of selected commercial banks. Management and staffs working in the selected commercial banks were requested to give their views on the extent to which the aspects of control environment have effect on financial performance. The respondents were asked to indicate their level of agreement on a likert scale with values ranging from 1 being the least extent of rating to a value of 5 being the maximum extent indicator rating of the agreement. Collected responses were analyzed using descriptive statistics, specifically means and their standard deviations which were then used to ascertain the level of variation of individual responses from their overall mean of the responses per each aspect. The means results are shown on a scale interval where a mean value of 1.0-2.0 indicates disagree, 2.1-3.0 indicates moderately agree, 3.1-4.0 indicates agree and the mean value above 4.1 suggested a strong extent of agreement. The findings of control environment were as presented in Table 4.9.

Table 4.9

Control Environment

	Mean	Std. Dev
The level of integrity practiced by operating personnel can influence financial performance in the bank.	4.064	0 .944
Strict adherence to the general values of ethics in the bank influences financial performance of the bank.	4.141	0.751
Financial performance of the bank depends so much on the level of commitment to work by the staff.	3.987	0.987
Management competency in handling the banking system influences the bank financial performance.	3.782	1.147
Control environment generally influence the financial performance of commercial banks.	3.923	0.950
The board is competent and strongly committed to implementation of recommendations from the internal audit department for the betterment of the bank's financial performance.	3.897	0 .920

(Researcher, 2021)

From the findings as presented in Table 4.9, respondents agreed (mean= 4.064; std. dev. = 0.944) indicating that the level of integrity practiced by operating personnel can influence financial performance of banks. The respondents strongly agreed that strict adherence to the general values of ethics in the bank influences financial performance of the bank. This is evidenced by a mean of 4.141 and the standard deviation of 0.751.

It is also evidenced by the findings presented in Table 4.9 that financial performance of the bank depends so much on the level of commitment to work by the staff. This is shown by a mean of 3.987 and the standard deviation of 0.987, indicating that the respondents agreed with the statement. From the table, the findings also indicated that the respondents agreed (mean= 3.782; std. dev. = 1.147) with the statement that management competency in handling the banking system influences the bank financial performance.

The findings as well indicated that the respondents agreed with the statement that control environment generally influence the financial performance of commercial banks. The mean of 3.923 and the standard deviation of 0.950 as presented in the table prove the agreement with the statement. It is evidenced by a mean of 3.897 and standard deviation of 0.920 that the respondents agreed with the statement that the board is competent and strongly committed to implementation of recommendations from the internal audit department for the betterment of the bank's financial performance.

From the findings based on the analysis using the means and standard deviation, control environment influences financial performance of banks. The study findings are in agreement with Nyaga (2007) findings that the frequency of board meetings and board composition influenced financial performance. The findings also concur with Magara (2013) findings that control environment influences financial performance.

4.3.8 Risk assessment

In this section, the study attempted to establish the relationship between risk assessment and financial performance of selected commercial banks. The findings are based on the means and standard deviations of the responses that were collected on a likert scale which was used to measure the level of agreement of respondents with respect to the given aspects of risk assessment. The findings of the risk assessment were as presented in Table 4.10.

Table 4.10

Risk Assessment

	Mean	Std. Dev
Risk identification in a proper manner by the organization has the influence on the financial performance of the bank.	3.833	1.012
Management has criteria for identification of which risks to the bank are most critical and this has influenced financial performance to great extent.	3.910	0.885
Management has put in place mechanisms for mitigation of critical risks that may lead to bank's loss and therefore influencing the financial performance of the bank.	3.487	1.203
The general risk assessment exercise in the bank has resulted in improved financial performance of the bank.	3.949	0.938
Management commitment to installation of risk management techniques help in boosting the financial performance of the bank.	3.680	1.134

(Researcher, 2021)

As indicated in Table 4.10, the findings show that respondents agreed with the statement that risk identification in a proper manner by the organization has the influence on the financial performance of the bank. This agreement is supported by a mean value of 3.833 and a standard deviation of 1.012. As per the findings provided in the table, management has criteria for identification of which risks to the bank are most critical and this has influenced financial performance to great extent. This is indicated by a mean value of 3.910 and a standard deviation of 0.885 which shows that the respondents agreed with the statement.

Table 4.10 also shows that the respondents agreed (mean=3.487; std. dev. =1.203) indicating that the bank management has put in place mechanisms for mitigation of critical risks that may lead to bank’s loss and therefore influencing the financial performance of the bank. Further, it is depicted by the findings that general risk assessment exercise in the bank has resulted in improved financial performance of the bank. The respondents agreed with the statement as supported by a mean value of 3.949 and a standard deviation of 0.938 which is a small value of dispersion from the mean.

It is evidenced also by the findings presented in the table that management commitment to installation of risk management techniques helps in boosting the financial performance of the bank. The mean value of 3.680 and a standard deviation of 1.134 indicate that the respondents agreed with the statement.

Generally, each of the aspects of risk assessment has been agreed upon by the respondents as depicted in the table with mean values between 3.1 and 4.0 and standard deviations of between 0 and 1. These findings show that risk assessment affects financial performance. The study findings are in tandem with the results arrived at by Magara (2013) which indicated that without effective internal control systems, institutions would not achieve their goals because of ineffective risk assessment. The study findings are also in agreement with the findings drawn by

Mwangi (2014) that financial performance of commercial banks in Kenya was positively related to risk management.

4.3.9 Information and communications system

The values of means and standard deviations were used to present the findings from analyzed responses which were collected from the target respondents, where likert scale was employed in rating the level of agreement with respect to the given aspects of information and communications systems. The results of information and communications system were as shown in Table 4.11.

Table 4.11

Information and Communications System

	Mean	Std. Dev
Management has good system of information and communication across all the bank departments and as a result, influences financial performance of the bank.	3.641	1.057
Relevant information to the relevant department in the bank has a great tendency to influence the overall financial performance of the bank.	3.667	1.015
Financial performance of the bank depends on reliability of information and communication made by top management in the department of financial preparations.	3.782	0.878
The accuracy of the bank financial performance is greatly depended upon the availability of accurate information and communication within the bank.	3.474	1.066
There exists the relationship between bank financial performance and timely report of information.	3.474	1.148

(Researcher, 2021)

From Table 4.11, it is evidenced that the respondents agreed (mean=3.641; std. dev. =1.057) indicating that management has good system of information and communication across all the bank departments and as a result, influences financial performance of the bank. With the mean of 3.667 and a standard deviation of 1.015, it is agreed by the respondents that relevant information to the relevant department in the bank has a great tendency to influence the overall financial performance of the bank.

Table 4.11 also presents the findings that financial performance of the bank depends on reliability of information and communication made by top management in the department of financial preparations. This is supported by a mean of 3.782 for agree and a standard deviation of 0.878 indicating that the respondents were in agreement with the statement. The findings also indicated that the accuracy of the bank financial performance is greatly depended upon the availability of accurate information and communication within the bank. This is with respect to the mean of 3.474 and a standard deviation of 1.066 indicating that the respondents agreed with the statement.

There exists the relationship between bank financial performance and timely report of information as supported by a mean of 3.474 and a standard deviation of 1.148. The mean of 3.474 and the standard deviation of 1.148 imply that the respondents agreed with the statement.

Through this study findings, information and communications system is positively and significantly related to commercial banks performance. The study findings match with the findings which were drawn by Kariuki and Muthusi (2017) that information and communications system is positively and significantly related with financial performance of banks.

4.3.10 Control activities

The findings under this component of internal control system were based on the analysis of collected data by use of means and standard deviations. A likert scale with interval measurements was used to record the extent to which the respondents agreed with the respective aspects of control activities. The study findings regarding the aspects of control activities were as presented in Table 4.12.

Table 4.12

Control Activities

	Mean	**Std. Dev**
Good policies established in the bank, observed by all departments accordingly and implemented properly can influence financial performance of the bank in one way or the other.	3.936	0.931
Strict adherence to the laid down rules by all staff of the bank can result in better financial performance and vice versa.	3.872	0.903
Properly designed procedures of handling various documents in the bank can lead to desirable financial performance of the bank.	4.026	0.755
Guidelines observed by the staff in daily banking operations have some relationship with financial performance of the bank.	4.103	0.713
Segregation of duties in the banking sector has resulted to employee improved efficiency thus, translating to positive influence on financial performance.	3.897	0.906

(Researcher, 2021)

From Table 4.12, it is confirmed from the mean of 3.936 and a standard deviation of 0.931 that the respondents agreed to the statement of the control activities that good policies established in the bank and observed by all departments accordingly and implemented properly can influence financial performance of the bank in one way or the other. The findings as well illustrate that the respondents agreed with the statement of control activities that strict adherence to the laid down rules by all staff of the bank can result in better financial performance and vice versa. This is confirmed by the mean of 3.872 for agree and a standard deviation 0.903.

As presented in Table 4.12, the respondents agreed (mean= 4.026; std. dev. = 0.755) indicating that properly designed procedures of handling various documents in the bank can lead to desirable financial performance of the bank. The study results also indicate that the respondents strongly agreed that guidelines observed by the staff in daily banking operations have some relationship with financial performance of the bank. This is depicted by a mean of 4.103 for strongly agree and standard deviation of 0.713 which is a small value of deviation from the mean.

The findings presented in Table 4.12 confirm that the respondents agreed as supported with a mean of 3.897 and a standard deviation of 0.906 that segregation of duties in the banking sector has resulted to employee improved efficiency thus, translating to positive influence on financial performance.

The findings with respect to the aspects of control activities in relation to means and standard deviations indicate that there is some relationship between control activities and financial performance of banks. The findings as presented in Table 4.12 concur with the findings of Wu and Rezende (2014) which state that frequent examination of banks operations encouraged reduction of risk by way of safer assets being held and that reduced the loss on loan provisions and it boosted profitability which was measured by Return on Equity.

The findings as presented in Table 4.12 also are in agreement with the findings by Ngari (2017) which suggested that vouching, segregation of duties and internal audit have influence on financial performance. The findings also agree with Naibei and Kipyego (2017) findings that performance of tier (1) banks significantly related to internal accounting control system.

4.3.11 Monitoring

Monitoring aspects were also analyzed with the use of means and standard deviations. Likert scale with interval values indicating different levels of agreement by the respondents was used to collect responses. The analyzed data with respect to the aspects of monitoring activities by use of means and standard deviations are as presented in Table 4.13.

Table 4.13

Monitoring

	Mean	**Std. Dev**
The overall regular monitoring of the bank operations and alignment to objectives greatly influences the financial performance of the bank.	3.590	1.110
Frequent evaluation of the bank internal control systems has significant influence on the financial performance of the bank.	3.718	1.092
There is a significant relationship between frequent performance reviews and financial performance of the bank.	3.603	1.177
Routine audits of financial statements of the bank and processes by external independent auditor have a great influence on financial performance of the bank.	3.641	1.128
Management has proper tools for monitoring and evaluation which can assist in boosting financial performance of the bank.	3.513	1.203

(Researcher, 2021)

According to Table 4.13, the respondents agreed that the overall regular monitoring of the bank operations and alignment to objectives greatly influences the financial performance of the bank. The mean of 3.590 and the standard deviation of 1.110 suggest that the respondents agreed to the statement. The findings as are presented by Table 4.13 also indicate with the mean of 3.718 and a standard deviation of 1.092 that the respondents agreed to the statement that frequent evaluation of the bank internal control systems has significant influence on the financial performance of the bank.

Table 4.13 findings indicate that with the mean of 3.603 and a standard deviation of 1.177, the respondents agreed that there is a significant relationship between frequent performance reviews and financial performance of the bank. The respondents agreed (mean=3.641; std. dev. =1.128) implying that routine audits of financial statements of the bank and processes by external independent auditor have a great influence on financial performance of the bank.

Management also has proper tools for monitoring and evaluation which can assist in boosting financial performance of the bank. The mean of 3.513 for agree and a standard deviation of 1.203 as presented in Table 4.13 indicates that the respondents were in agreement with the statement.

Monitoring of banks operations as indicated by the level of agreement by the respondents suggest that monitoring has some association with the financial performance of institutions. The findings are in agreement with the findings by Mosago (2013) which state that financial monitoring by organizations contributed to better programs.

4.4 Correlation Analysis

Correlation analysis involves identification of interrelationship of the study variables. Pearson’s correlation coefficient (r) was used to determine the strength and direction of associations and how study variables were related. Table 4.14 illustrates the correlations between the dependent variable and predictors for this study namely control environment, risk assessment, information and communication system, control activities and monitoring. Values of correlation coefficients (r) range between -1.00 and +1.00 in which a negative value is used indicate a perfect negative relationship while a positive number is used to indicate a perfect positive relationship. Values between 0.8-1.00 are used to indicate a very strong relationship, 0.6-0.8 indicate strong relationship, 0.4-0.6 indicate moderate relationship, 0.2-0.4 indicate weak relationship while 0 .00-0.2 indicate very weak relationship. The test of the relationship between the study variables was at 5% significant level.

Table 4.14

Correlation Analysis

		Financial performance	Control Environment	Risk Assessment	Information and Communication System	Control Activities	Monitoring
Financial Performance	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	78					
Control Activities	Pearson Correlation	.131	1				
	Sig. (2-tailed)	.254					
	N	78	78				
Risk Assessment	Pearson Correlation	.170	.974**	1			
	Sig. (2-tailed)	.136	.000				
	N	78	78	78			
Information and Communication System	Pearson Correlation	.199	.941**	.971**	1		
	Sig. (2-tailed)	.081	.000	.000			
	N	78	78	78	78		
Control Activities	Pearson Correlation	.190	.982**	.972**	.937**	1	
	Sig. (2-tailed)	.095	.000	.000	.000		
	N	78	78	78	78	78	
Monitoring	Pearson Correlation	.110	.954**	.980**	.970**	.959**	1
	Sig. (2-tailed)	.337	.000	.000	.000	.000	
	N	78	78	78	78	78	78

** Correlation is significant at the 0.05 level (2-tailed).

(Researcher, 2021)

Table 4.14 presents the findings that financial performance has a very weak positive and statistically insignificant relationship control environment (r=0.131; P>0.05). The findings also indicate that financial performance positively correlate with risk assessment. The relationship is very weak and statistically insignificant (r=0.170; P>0.05). The correlation table also shows a very weak positive and insignificant relationship between financial performance and information and communication system (r=0.199; P>0.05).

As indicated in the correlation analysis table, control activities component has a very weak and insignificant relationship with financial performance (r=0.190; P>0.05). The correlation analysis also shows that monitoring component of internal control systems has a very weak positive and insignificant relationship with financial performance (r=0.110; P>0.05).

The results of the correlation indicate that there is a very strong positive and a high significant relationship among the study independent variables. The findings indicate that the highest, very strong positive and highly significant correlation is that between control environment and control activities (r=0.982; P<0.05). The table also indicates that lowest, very strong positive and highly significant correlation is that between control activities and information and communication system (r=0.937; P<0.05).

The results by the correlation analysis indicating very strong positive and highly significant relationship between independent variables imply that all the components of internal control systems must function jointly to produce better reliable results. The weak positive and insignificant relationship between individual internal control systems and performance implies that a single component of internal control system cannot work efficiently and cannot be relied upon to relate significantly to performance. This brings out the new knowledge regarding the functionality of internal control systems as individuals or working together in an organization.

As per the correlation analysis that the relationship between risk assessment and financial performance is positive and insignificant, study's correlation analysis findings disagree with the findings by Mwangi (2015) which indicated that financial performance of banks was strongly positively related to risk management. This study finding agrees with the findings by Gift (2018) which indicate that internal controls positively related with financial performance.

The study's correlation analysis findings also disapprove the findings by Entengu and Amony (2016) that control activities, control environment and monitoring significantly related with financial performance. The findings agree with the findings by Muthusi (2017) that the components of internal control system positively related with financial performance. The only difference is that Muthusi (2017) findings indicate that the relationship between the components of internal control system was significant. The study findings also differ with the findings by Naibei and Kipyego (2017) that financial performance significantly related to internal accounting control system.

4.5 Regression Analysis

This study employed multi regression analysis to determine the relationship of independent variables with the dependent variable. The dependent variable was financial performance of the selected commercial banks measured by return on assets. Independent variables of the study included control environment, risk assessment, information and communication system, control activities and monitoring. The regression test was conducted with the model presenting coefficients of independent variables. The test of the relationship was tested at 5% significant level.

This part presents the relationship test outcome between the dependent and independent variables. The regression test was performed to show the degree upon which internal controls have influence on financial performance of selected commercial banks. The significance of the regression model was tested at the 5 % level of significance. F –statistics were undertaken to determine how reliable the regression model is in predicting the relationship between independent variables and the dependent variable.

With the help of regression analysis, the outcomes are given in the regression model summary indicating the extent of variability of performance due to the effect of the predictor variables, which are the internal controls as given by the coefficient of determination (r^2), the ANOVA table presenting how significant the regression model is as well as the regression coefficients.

4.5.1 Multi-collinearity diagnostics test

The test for multi-collinearity of the independent variables was performed with the help of Variance Inflation Factors value table. The values which were above 10 in the Variance Inflation Factor column of the table, indicated that there was a problem with co-linearity of independent variables. This called for a further test to identify the possible source of the multi-collinearity between independent variables in the regression model. Collinearity diagnostic test was performed and the results are as presented in table 4.15.

Table 4.15

Multi-collinearity Diagnostics

Model	Dimension	Eigen value	Condition Index	Variance Proportions					
				(Constant)	Control Environment	Risk Assessment	Information and Communication System	Control Activities	Monitoring
	1	5.935	1.000	.00	.00	.00	.00	.00	.00
	2	.057	10.233	.22	.00	.00	.00	.00	.01
	3	.004	36.372	.24	.10	.00	.28	.05	.03
	4	.002	52.567	.14	.06	.00	.48	.00	.72
	5	.001	77.984	.10	.04	.95	.20	.16	.08
	6	.001	90.168	.30	.80	.05	.03	.79	.16

(Researcher, 2021)

a. Dependent Variable: Financial Performance

Table 4.15 illustrates that there are 5 predictor variables in the study and 6 dimensions. The table helps to extract uncorrelated dimensions from the predictor data. If there is no collinearity, all the dimensions should contribute information meaningful to the predictor variables. If there is multi-collinearity then all dimensions are redundant. In the table, dimensions with high Eigen value show high contribution to the independent variables whereas those with low value closer to 0 indicate aspects of multi-collinearity between independent variables.

It is difficult to interpret the Eigen values to pinpoint the source of multi-collinearity because they are reliant on the number of predictors on the model. This necessitates the use of condition index values which are calculated from Eigen values. By using this, the dimensions which show values above 15 indicate possible problems with multi-collinearity. Values above 30 indicate strong signs of multi-collinearity. In the findings, there are four cases with high condition indexes. Therefore, the next step is to use the variance proportions where the variances of each predictor variables are distributed to each of the four dimensions with condition index, which are 3,4,5and 6.

In each of the four dimensions, the predictor variables with variance proportions above 0.90 are ascertained. If in one row there are two or more predictor variables with variance proportions being above .90, the predictors have collinearity problem. Table 4.15 illustrates that there are no two or more predictor variables in each row of the four dimensions, having the highest condition indexes, with variance proportions above 0.90. The diagnostics tests therefore indicate no major collinearity problems in the data, revealing no such severity. Therefore, there is no significant collinearity in the data set that can hinder regression model analysis.

Table 4.16

Coefficient of Determination Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.735[a]	. 540	.512	.67759

(Researcher, 2021)

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), monitoring, control environment, information and communication systems, control activities, risk assessment

Table 4.16 shows the regression model summary for the relationship between performance of banks (ROE) and the predictor variables which are the monitoring, control activities, information and communication systems, risk assessment and control environment. The table contains the summary coefficients which indicate the degree of influence of the independent variables (predictor variables) on the performance.

As per the findings, the R-coefficient is 0.735 indicating that the predictor variables (independent variables) have strong positive association with the performance of branches of commercial banks. The coefficient of determination (R-Square) indicates that the predictor variables used in the study can be relied on to explain 54% (0.540) of the variability in performance of banks. Therefore, basing on the findings presented in the table while holding other factors constant, the monitoring, control activities, information and communication system, risk assessment, and control environment contribute to 54% growth in the performance of banks. This implies that all the five components of internal control system working in combination, lead to 54% variation in financial performance. 46% of the variability is caused by other factors not studied.

Table 4.17

Analysis of Variance and F-Test Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	27.059	5	5.412	11.787	.000[b]
	Residual	33.057	72	.459		
	Total	60.115	77			

(Researcher, 2021)

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), monitoring, control environment, information and communication systems, control activities, risk assessment

From Table 4.17, the significance value in testing the reliability of the model for the relationship between financial performance and internal controls was obtained as 0.01 which is less than 0.05 the critical value at 5 % significance level. Therefore, the model is statistically significant in predicting the relationship between financial performance and internal controls in the commercial banks. The F value calculated is 11.787 implying a significant model for the relationship as given by the regression coefficients. This implies that the overall model was statistically significant and reliable in explaining the influence of the predictor variables to the financial performance of selected commercial banks, $F(5, 72) = 11.787$, $P<0.05$.

The significant of the effect of independent variables on the dependent variable was tested on the multiple regressions with the use of beta and significance values at 5%. The findings on the significance of the effect were presented as shown in Table 4.18.

Table 4.18

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.057	.587		1.801	.076
	Control Environment	-.930	.496	-.971	-1.874	.065
	Risk Assessment	1.460	.560	1.662	2.608	.011
	Information and Communication System	.370	.358	.420	1.034	.305
	Control Activities	1.931	.558	1.774	3.462	.001
	Monitoring	-2.508	.390	-3.179	-6.440	.000

(Researcher, 2021)

a. Dependent Variable: Financial Performance

According to the findings as presented in Table 4.18, the independent variables (control environment and monitoring) showed negative coefficients indicating negative effect on the performance. Risk assessment, information and communication system and control activities showed positive beta coefficients indicating that they have positive effect on performance. Therefore, it observed from the table that control environment does not have a significant effect on financial performance, $t(72) = -1.874$, $P=0.065$. The findings show that risk assessment has significant effect on financial performance, $t(72) = 2.608$, $P<0.05$. It is also indicated by the table that information and communication system has no significant effect on financial performance, $t(72) = 1.034$, $P=0.305$. Control activities is also shown to have significant effect on financial performance, $t(72) = 3.462$, $P<0.05$. The table indicates that monitoring also has significant effect on financial performance, $t(72) = -6.440$, $P<0.05$.

The interpretation of Beta coefficients of Table 4.18 is presented that with one-unit increase in control environment, financial performance decreases by 0.93. This implies that control environment component may not function alone to produce positive results. It can only work with other components for positive results. A one-unit increase in risk assessment increases performance by 1.46. This implies that risk assessment component can stand alone to produce positive results. A unit increase in information and communication system leads to an increase in performance by 0.37 implying that this component can also stand to work alone to generate positive results. A unit increase in control activities results in an increase in performance by 1.93. This indicates that control activities can also produce positive results working alone while with one-unit increase in monitoring results in a decrease in performance by 2.51. The implication of monitoring is that too much monitoring of activities may lead to a fall in performance. Based on the coefficients, the regression model, $ROEi = \alpha + \beta 1CEi + \beta 2RAi + \beta 3ICS + \beta 4CAi + \beta 5Moni + \varepsilon$ therefore becomes; $ROEi = 1.06 - 0.416\ CEi + 1.46RAi + 0.37ICSi + 1.93CAi - 2.51Moni$. This clearly shows either positive or negative relationship between the predictor variables and the performance of selected commercial banks.

4.6 Control Environment and Financial Performance

The first objective was to ascertain the effect of control environment on the financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. According to findings of this study, control environment has a negative and insignificant effect on the financial performance of selected banks. This is as per Table 4.18 (B= -0.93, P-Value=0.065). The findings of this study fail to agree with Nyaga (2007) study which indicated that there was a perfect linear relationship between boards meetings, board composition and performance. The findings of this study also disagree with the findings by Mawanda (2008) which indicated that internal control systems had significant relationship with financial performance. The findings also disapprove the findings by Magara (2013) that control environment had a positive effect on financial performance of Saccos.

The findings as well disagree with the findings of Etengu and Amony (2016) whereby their study indicated that financial performance significantly related to control environment. Muthusi (2017) study findings that control environment being one of the components of internal control systems positively and significantly related to financial performance of commercial banks is disapproved by this study finding. The finding further fails to agree with the findings drawn by Nyakundi (2014) which concluded that financial performance is significantly influenced by internal controls of which control environment is one of them.

This study finding fails to concur with the finding of Renox (2017) which indicated that commercial banks performance in Kenya positively and significantly correlated with internal controls. Control environment being one of the components of internal control, is negatively and insignificantly correlating with performance. This study finding concurs with Muio (2012) that control environment affects financial performance but Muio fails to indicate whether the effect was either positive or negative and whether the effect was significance or insignificant.

4.6.1 Risk assessment and financial performance

The second objective was to establish the effect of risk assessment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. According to Table 4.18, risk assessment indicates a positive and significant effect of risk assessment on financial performance of selected commercial banks (B=1.46, P-Value=0.011). This supports the findings by Kimotho (2015) that credit risk management procedures influenced profitability of the banks positively. The study findings also are in agreement with the findings of Mwangi (2014) which showed that Kenyan commercial banks financial performance was positively affected by risk management, except that the strength of the relationship differ. Mwangi's finding indicated a strong positive relationship between independent and dependent variables. The findings further support the findings which were arrived at by Oyoo (2014) that internal controls had positive relationship with financial performance of micro-finance institutions. The findings also are in concurrent with Pagano (2001) study findings which showed that risk management had some importance in creating value for customers and shareholders.

Muthusi (2017) study findings that risk assessment component of internal control system positively and significantly related to financial performance are supported by this study finding. It further concurs with Gift (2008) results that risk assessment as internal control component influenced financial performance to a significant extent.

This study finding concurs with the finding of Renox (2017) which indicated that commercial banks performance in Kenya positively and significantly correlated with internal controls. Risk assessment being one of the components of internal control, is positively and significantly correlating with performance.

4.6.2 Information and communication system and financial performance

The third objective was to assess the effect of information and communication on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 indicates that information and communication systems have a positive but insignificant effect on the banks performance (B=0.37, P-Value=0.305). The findings of this study agrees with Mwangi (2012) study findings that electronic banking have a strong positive relationship with the entire performance of banks, except that there is slight difference on the strength of the association. The findings also support the findings by Kariuki (2017) which indicate that Kenyan commercial banks' financial performance is affected by information and communication technology but only differ on the significance of the effect. Kariuki (2017) failed to indicate the significance of the effect. This study agrees with Ejoh and Ejom (2014) finding which generally concluded that financial performance was not significantly related to internal controls.

This finding also concurs with Muthusi (2017) study finding that information and communications system being part of internal control system was positively related to financial performance but disagree on the significance of the relationship. This finding shows insignificant effect of information and communications system on performance contrary to Muthusi's finding. The finding of this study also supports the finding by Mensah (2016) that information and communication technology affect financial performance. Mensah (2016) only fails to show the significance of the effect.

Gift (2018) findings are supported by this finding that information and communication system being one of the components, influence financial performance except that the significance of the effect differs. This study found insignificant effect contrary to Gift's findings. Again, this study finding supports Renox (2017) finding that information and communication system positively affect financial performance. The difference is that Renox's study shows that the effect is significant which is contrary to this study.

4.6.3 Control activities and financial performance

The fourth objective was to examine the effect of control activities on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 shows a positive and significant effect of control activities on the financial performance of selected commercial banks (B=1.931, P-Value=0.001). These findings agree with the findings of a study done by Barra (2010) indicating that presence of the control activities and separation of duties increases the cost of committing fraud among the staffs and therefore the banks' operations are assured of security. These findings also concur with the findings related to a study which was done by Ngari (2017) which stated that vouching, segregation of duties and internal audit had influence on financial performance.

The finding also agrees with the finding drawn by Magara (2013) that independent variables (control environment, risk assessment, control activities and monitoring) positively correlated with the dependent variable (financial performance). The finding also concurs with Muthusi (2017) findings that components of internal control were positively and significantly related to performance of banks.

This study finding disagrees with Ejoh and Ejom (2014) finding which generally concluded that financial performance was not significantly related to internal controls. This study finding concurs with the findings drawn by Wu and Rezende (2014) which suggested that frequent examination of banks encouraged reduction of risk by way of safeguarding assets held and in the process boost profitability. This finding also is similar to the findings drawn by Ngari (2017) suggesting that vouching, segregation of duties and internal audit influenced performance. Ngari's finding does not indicate whether the influence is positive or negative, significant or insignificant.

The study finding also is in tandem with the findings drawn by Naibei and Kipyego (2017) that performance of tier (1) one banks significantly related to internal accounting control system. The findings of this study show similarity as well with the findings made by Renox (2017) that commercial banks financial performance correlated positively and significantly to internal controls.

4.6.4 Monitoring and financial performance

The fifth objective was to examine the effect of monitoring on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 shows that monitoring has a negative and significant effect on financial performance of the selected commercial banks (B=-2.51, P-Value=0.001). The findings indicated a P-Value of 0.001 implying that there is a significant effect of monitoring on financial performance of selected commercial banks. A beta of -2.51 indicated a negative effect. This finding implies that too much monitoring controls may lead to inefficiency hence lower financial performance. Monitoring should therefore be done in moderation to achieve best results.

In his study, Muio (2012) established that monitoring had the highest influence on the financial performance of private hospitals in Kenya as compared to control environment, information and communication, risk assessment and control activities respectively. The findings therefore are in support of this study through the fact that there is a significant negative effect of monitoring on the financial performance of selected commercial banks.

The study finding is not in agreement with the finding made by Mosago (2013) that financial performance is positively related to monitoring. Nyakundi (2014) findings agree with the finding of this study that financial performance is significantly influenced by internal controls. Findings by Likalama and Nyangau (2017) agree with the findings of this study that monitoring and evaluation significantly affected financial performance.

4.7 Hypotheses Testing

The first hypothesis was that control environment has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho Counties in Kenya. According to the study findings, control environment has no significant effect on financial performance (B= -0.93, P=0.065). Therefore, the null hypothesis was accepted.

The second hypothesis was that risk assessment has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho Counties in Kenya. The research findings indicate risk assessment has significant effect on performance (B=1.46, P=0.011). The null hypothesis therefore, was rejected.

The third hypothesis was that information and communication system has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho Counties in Kenya. The findings indicate that information and communication system do not significantly affect financial performance (B=0.37, P=0.305). The null hypothesis is accepted.

The fourth one was that there was no significant effect of control activities on financial performance of branches of commercial banks in Bomet and Kericho Counties in Kenya. The results of the study showed that control activities have significant effect on financial performance (B=1.931, P=0.001). This implies that the null hypothesis failed to be accepted.

The last hypothesis was that monitoring has no significant effect on financial performance of branches of commercial banks in Bomet and Kericho Counties in Kenya. The results obtained from the study suggested that monitoring significantly affect financial performance as indicated by a P-Value of 0.001. This implies that the null hypothesis is rejected.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusions drawn from the research results, recommendations to be made basing on the study findings and suggestion for further research.

5.2 Summary

This research was performed with the aim of determining the effect of internal control systems on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. This study was supported by five specific objectives which were to ascertain the effect of control environment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya; establish the effect of risk assessment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya; assess the effect of information and communication system on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya; examine the effect of control activities on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya and to examine the effect of monitoring on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya.

5.2.1 Response rate

The study found that most of the banks’ staffs were undergraduate degree holders. Most of the staffs had worked more than two years in the respective selected commercial banks whereby majority indicated that internal control system review was done annually. Most of the staff gave the opinion that presence of internal control systems boosts financial performance and that the internal controls function as intended. Majority of the responses indicated that internal control system in the selected commercial banks was effective.

5.2.2 Descriptive statistics

Descriptive statistics findings showed that all the components of internal control system affected financial performance of selected commercial banks in the selected counties. The findings indicated that guidelines observed by the staff in daily banking operations have relationship with financial performance. Correlation findings indicated that control environment, risk assessment, information and communication system, control activities and monitoring individually had very weak positive and insignificant relationship with financial performance of selected banks.

5.2.3 Correlation analysis

Correlation findings also indicated that the relationship between the independent variables was positively strong. This indicated that the relationship between the variables in determining financial performance was significant. This is evidenced in Table 4.14 by the highest and positively strong correlation between control environment and control activities with correlation coefficient (r) of 0.982.

The outcomes of the multiple regression model indicated that there is either a positive or negative relationship between internal control and financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. The study findings also indicated that internal controls influenced financial performance to some extent as provided in the summary below.

5.2.4 Control environment and financial performance

The first objective was to ascertain the effect of control environment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. According to findings of this study, control environment has a negative and insignificant effect on the financial performance of selected banks. This is as per Table 4.18 (B= -0.93, P-Value=0.065).

5.2.5 Risk assessment and financial performance

The second objective was to establish the effect of risk assessment on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. According to Table 4.18, risk assessment indicates a positive and significant effect of risk assessment on financial performance of selected commercial banks (B=1.46, P-Value=0.011).

5.2.6 Information and communication system and financial performance

The third objective was to assess the effect of information and communication system on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 indicates that information and communication systems have a positive but insignificant effect on the banks performance (B=0.37, P-Value=0.305).

5.2.7 Control activities and financial performance

The fourth objective was to examine the effect of control activities on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 shows a positive and significant effect of control activities on the financial performance of selected commercial banks (B=1.931, P-Value=0.001).

5.2.8 Monitoring and financial performance

The fifth objective was to examine the effect of monitoring on financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. Table 4.18 shows that monitoring has a negative and significant effect on financial performance of the selected commercial banks (B=-2.51, P-Value=0.001).

5.3 Conclusions

Basing on the findings obtained in chapter four, the conclusion is that control environment in the branches of commercial banks negatively influence the financial performance but it is not significant. The negative effect of the control environment though not significant, requires the managers of branches of commercial banks to look for better ways to improve the control environment measures to cause positive influence on financial performance.

Risk assessment measures incorporated by the branches of commercial banks also has positive and significant relationship with the level of the commercial banks' performance. Banks with effective measures of risk assessment in their undertakings portray better financial performance. These banks are able to detect risks in their operations which could contribute to negative results and therefore help in devising techniques in place to contain and manage these risks. Minimum risks in operation guarantee a commercial bank improved financial performance.

There is a positive but insignificant relationship between information and communication and the financial performance of branches of commercial banks in Bomet and Kericho counties in Kenya. The accessibility of relevant and reliable information in commercial banks by the clients and other stakeholders may guarantee improved financial performance through informed decision making based on the relevant and reliable information.

Control activities as per the findings contribute positively and significantly to the financial performance of branches of commercial banks in the two counties in Kenya. The management should ensure that implementation of measures such as segregation of duties, approval and authorization as well as internal audit is done and strengthened.

The negative effect of monitoring which is significant on financial performance of branches of commercial banks needs to be rectified by the management. It is the responsibility of the management to ensure that every aspect of internal control in the organization contributes to the general performance of the commercial bank.

5.4 Recommendations

On the basis of the study findings and conclusions which have been made, the researcher recommends the following measures to be implemented by the branches of commercial banks in both counties, for better objectives to be realized. Control environment has a negative effect which is insignificant to financial performance. The management of branches of commercial banking institutions in the two counties should ensure that every aspect of control environment which causes the negative influence on financial performance is given proper attention and measures be put in place to address the negative influence of such aspects. Management should find the possible alternative ways of improving on control environment in order to achieve a positive effect of it on financial performance.

Risk assessment has a positive significant relationship with financial performance. The management of branches of the banking institutions in both counties should continue encouraging and strengthening the measures which are put in place to mitigate possible risks of losses in the banking sector. The management should continue investing more on research concerning the possible cause of technical risks in order to find effective ways to deal with such risks should they arise.

Information and communication has a positive but insignificant effect on financial performance. Every organization must implement effective and efficient information and communication system in order to realize their desired objectives. The management of the branches of commercial banks in the two counties should ensure that their information and communication systems are effective and efficient in delivering the desired results. They must ensure that they invest in the systems which can help them to achieve positive and significant financial performance.

Control activity has a positive significant effect on financial performance. The management of branches of commercial banks should continue strengthening and implementing properly all aspects such as segregation of duties, vouching, proper approval and authorization of transactions in the organization. This will ensure that risks of distorting financial information are reduced to a minimum as possible and that guarantees improved the accuracy and reliability of financial performance.

Monitoring has a negative significant effect on financial performance. There is need for the management to implement proper monitoring strategies which will ensure that the branches of commercial banks in the two counties achieve positive and significant improvement in their financial performance.

5.5 Suggestions for Further Study

The banking sector continues to experience more new regulations worldwide. These regulations as well are deemed to influence the way commercial banks undertake their operations. The study suggests that in future, the researchers may consider undertaking a research on the effect of new banking regulations such as Basel Accord III on financial performance of commercial banks.

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APPENDIX I: Questionnaire

Dear Sir/Madam

You are invited to participate in the above mentioned research project. The survey should only take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will be solely used for academic purpose.

1. Respondent's Highest Educational Qualification

    i) Certificate/Diploma **[ ]**

    ii) Undergraduate degree **[ ]**

    iii) Postgraduate **[ ]**

2. Time spent in the bank

    i) Less than 6 months **[ ]**

    ii) 6 months-1 year **[ ]**

    iii) 1-2 years **[ ]**

    iv) 2-3 years **[ ]**

    v) 3-4 years **[ ]**

    vi) More than 4 years **[ ]**

3. How frequent does your bank review its internal control systems?

    i) After 5 years **[ ]**

    ii) Annually **[ ]**

    iii) Half-yearly **[ ]**

    iv) When need arises **[ ]**

4. In your opinion, does your bank's system of internal controls sufficiently boost financial performance?
5. Are the systems of internal controls referred to in 4 above functioning as they are intended to?
    a) Yes ()
    b) No ()

    Explain if your answer is **NO**

6. How would you generally rate the internal control system in your organization in relation to financial performance?
    a) Very ineffective ( )
    b) Ineffective ( )
    c) Uncertain ( )
    d) Effective ( )
    e) Very effective ( )

7. Please rank the following statements in each area of internal control system on Likert scale ranging from strongly disagree to strongly agree where: 1 = strongly disagree; 2 = disagree; 3 = neutral; 4= agree; and 5= strongly agree.

Internal Control Systems

1. Control Environment					
Rank Control Environment statements on Likert scale ranging from strongly disagree to Strongly Agree where 5 = Strongly Agree; 4 = Agree; 3 = Neutral; 2= Disagree; and 1= Strongly Disagree.					
	5	**4**	**3**	**2**	**1**
	SA	**A**	**N**	**D**	**A**
i) The level of integrity practiced by operating personnel can influence financial performance in the bank					
ii) Strict adherence to the general values of ethics in the bank influences financial performance of the bank					
iii) Financial performance of the bank depends so much on the level of commitment to work by the staff					
iv) Management competency in handling the banking system influence the bank financial performance					
v) Control environment generally influence the financial performance of commercial banks					
vi) The board is competent and strongly committed to implementation of recommendations from the internal audit department for the betterment of the bank's financial performance					

2. Risk Assessment

Rank Risk Assessment statements on Likert scale ranging from strongly disagree to strongly agree where 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4= agree; and 5= strongly agree.

	5	4	3	2	1
	SA	**A**	**N**	**D**	**SD**
i) Risk identification in a proper manner by the organization has the influence on the financial performance of the bank					
ii) Management has criteria for identification of which risks to the bank are most critical and this has influenced financial performance to great extent					
iii) Management has put in place mechanisms for mitigation of critical risks that may lead to bank's loss and therefore influencing the financial performance of the bank					
iv) The general risk assessment exercise in the bank has resulted in improved financial performance of the bank					
v) Management commitment to installation of risk management techniques help in boosting the financial performance of the bank					

3. Information and Communications System **Rank Information and Communication system statements on Likert scale ranging from strongly disagree to strongly agree where 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4= agree; and 5= strongly agree.**					
	5	**4**	**3**	**2**	**1**
	SA	**A**	**N**	**D**	**SD**
i) Management has good system of information and communication across all the bank departments and as a result, influences financial performance of the bank					
ii) Relevant information to the relevant department in the bank has a great tendency to influence the overall financial performance of the bank					
iii) Financial performance of the bank depends on reliability of information and communication made by top management in the department of financial preparations					
iv) The accuracy of the bank financial performance is greatly depended upon the availability of accurate information and communication within the bank.					
v) There exist the relationship between bank financial performance and timely report of information					

4. Control Activities

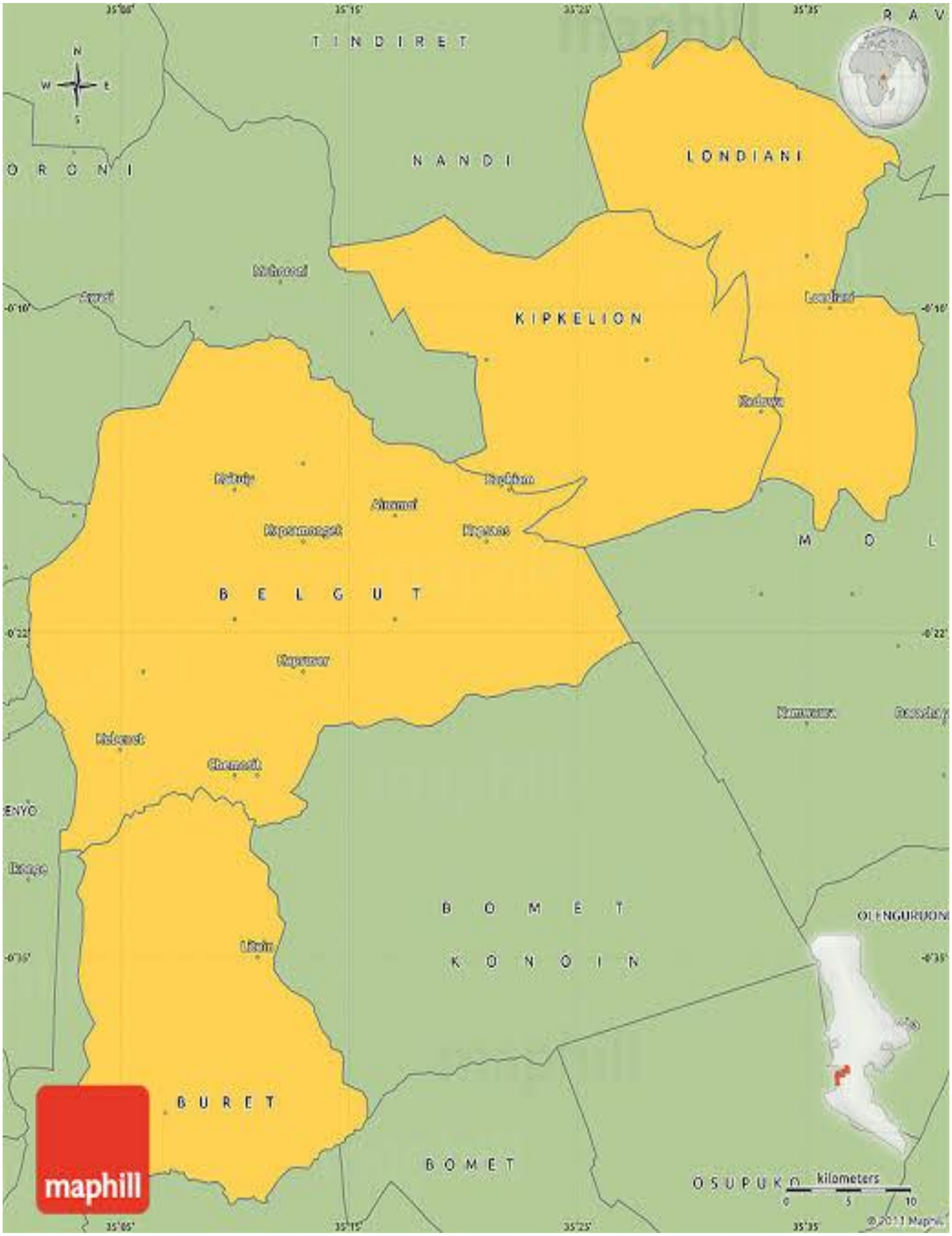
Rank Control Activities statements on Likert scale ranging from strongly disagree to strongly agree where 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4= agree; and 5= strongly agree.

	5	**4**	**3**	**2**	**1**
	SA	**A**	**N**	**D**	**SD**
i) Good policies established in the bank, observed by all departments accordingly and implemented properly can influence financial performance of the bank in one way or the other					
ii) Strict adherence to the laid down rules by all staff of the bank can result in better financial performance and vice versa					
iii) Properly designed procedures of handling various documents in the bank can lead to desirable financial performance of the bank					
iv) Guidelines observed by the staff in daily banking operations have some relationship with financial performance of the bank					
v) Segregation of duties in the banking sector has resulted to employee improved efficiency thus, translating to positive influence on financial performance					

5. Monitoring Rank Monitoring statements on Likert scale ranging from strongly disagree to strongly agree where 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4= agree; and 5= strongly agree.					
	5	**4**	**3**	**2**	**1**
	SA	**A**	**N**	**D**	**SD**
i) The overall regular monitoring of the bank operations and alignment to objectives greatly influence the financial performance of the bank					
ii) Frequent evaluation of the bank internal control systems has significant influence on the financial performance of the bank					
iii) There is a significant relationship between frequent performance reviews and financial performance of the bank					
iv) Routine audits of financial statements of the bank and processes by external independent auditor has a great influence on financial performance of the bank					
v) Management has proper tools for monitoring and evaluation which can assist in boosting financial performance of the bank					

Thank you for your participation.

Appendix II Simple Map of Kericho County



Appendix III Simple Map of Bomet County