INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF
PUBLIC INSTITUTIONS OF HIGHER LEARNING IN VIHIGA COUNTY, KENYA

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MAY 2018
DECLARATION

This research project is my original work and has not been presented for the award of a degree in any other University

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D53/OL/CTY/24934/2014

Supervisor:

This research project has been submitted for examination with my approval as the University supervisor

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DEDICATION

This research project is dedicated to my family, especially my loving wife Salome, daughters Caroline, Molvin and Gladwell and sons Christopher and Alvin, whose prayers and support has seen me through this work. To my dear wife: thanks for giving me the time and the peace I much needed for the two years to accomplish this achievement and to my children for being a source of inspiration to me and always giving me challenges and reasons to go on.
ACKNOWLEDGEMENTS

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations</td>
</tr>
<tr>
<td>CPD</td>
<td>Continuing Professional Development</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
</tr>
<tr>
<td>ETTC</td>
<td>Eregi Teachers Training College</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IGA</td>
<td>Income Generating Activities</td>
</tr>
<tr>
<td>KAFUCO</td>
<td>Kaimosi Friends University College</td>
</tr>
<tr>
<td>KFCST</td>
<td>Kaimosi Friends College of Science &amp; Technology</td>
</tr>
<tr>
<td>KTTC</td>
<td>Kaimosi Teachers Training College</td>
</tr>
<tr>
<td>MOE</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>NACOSTI</td>
<td>National Commission for Science Technology and Innovation</td>
</tr>
<tr>
<td>SAS</td>
<td>Statement of Auditing Standards</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>--------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Communication</td>
<td>This is the transmission or exchange of information between two or more persons. The message emanates from the source to the receiver and back to the source as feedback.</td>
</tr>
<tr>
<td>Control Environment</td>
<td>Control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.</td>
</tr>
<tr>
<td>Decision making</td>
<td>Relates to the act of making up your mind about a position or opinion or judgment reached after consideration.</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>Is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.</td>
</tr>
<tr>
<td>Internal Control Systems</td>
<td>Is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.</td>
</tr>
<tr>
<td>Internal control</td>
<td>This is a continuous process in which the board of directors, senior management and all level of personnel, take part and whose aim is to ensure that all the established goals will be reached.</td>
</tr>
<tr>
<td>Internal Controls</td>
<td>It refers to systematic measures such as reviews, checks and balances, methods and procedures instituted by organizations to provide reasonable assurance that its financial reports are reliable, its operations are effective and efficient, and its activities comply with applicable laws and regulations</td>
</tr>
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</table>
**Internal control system**  This is the process by which organizations maintain environments that encourage incorruptibility and deter fraudulent activities by management and employees.

**Information & Communication**  It’s the means by which information is disseminated throughout the organization. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously.

**Monitoring Activities**  Ongoing evaluations, separate evaluations or some combination of the two are used to ascertain whether each of the five components of internal control is present and functioning.

**Management**  This is the process of planning, controlling, directing, and coordinating and evaluating ideas, activities, and programmes to achieve the aims and objectives of an organization.

**Public Institution**  This is the name that is applied to a school or college that is run for the public to use.

**Planning**  This is the process of setting goals, developing strategies and outlining tasks and schedules to accomplish the goals.

**Productivity**  This is the output-input ratio within a period of due consideration for quality.
ABSTRACT

Most public institutions in many parts of the world have poor financial performance compared to private institutions. The poor financial performance can be attributed to financial management practice. The sound financial management practices require the institutions of robust internal control systems. The main objective of the study was to establish the effect of internal control systems on financial performance of public institutions of higher learning in Vihiga County. The study specific objectives were: to determine the impact of control activities, risk assessment, control environment, information and communication and monitoring on the financial performance of institutions of higher learning in Vihiga County, Kenya. The study was anchored on agency theory, stewardship theory, positive accounting theory and attribution theory. The study adopted a descriptive research design. The target population comprised of 140 employees of the four public institutions of higher learning under study in Vihiga County. The study had a sample of 96 employees. Primary data in this study was collected from sample population with aid of semi-structured questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. A multiple linear regression was used to analyze the relationship between the dependent and independent variable. The data was analyzed using the Statistical Package for Social Sciences (SPSS). The study findings revealed that the institutions under study had adequate and effective control activities which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess allocated funds. Control activities were found to have a positive significant effect on the financial performance of the institutions under study. The study found that the institutions under study had proper risk assessment tools and risk assessment management system because they carried out continuous financial assessment of their organizations coupled with regular, timely and profound audits. Risk assessment was found to have a positive significant effect on the financial performance of the institutions under study. The study established public institutions of higher learning in Vihiga County had effective control environment. The number of staff in finance and audit departments was adequate and well trained on accounting and financial management system. Control environment was found to have a positive and significant effect on the financial performance of the institutions under study. The study found that the institutions under study had effective flow of information and communication channels. The institutions had modern and efficient information and communication technologies to enhance adequate transfer of information, excellent record of transactions and proper accountability for assets. In addition, the study found that effective flow of information and communication enhanced financial accountability and financial performance of the institutions. The expenditure of the institutions was properly monitored and audit departments were independent. In addition, the institutions had proper supervisory activities to enhance accountability and transparency and they held regular management meetings to assess the financial status of the institutions. Financial monitoring was found to have a positive and significant effect on the financial performance of the institutions under study. The study recommends that the institutions establishes and manages regular and timely financial audit to help them identify any loop holes in their financial systems as well as financial performance.
CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Financial performance is the ability of an organization to run its operations efficiently to be able to create profits (Sebbowa, 2009). This study used Ray and Kurt’s definition of systems of internal control. Internal control Systems comprises of different elements hence this study only considered five aspects of internal control. These variables included; control activities, Control environment, Risk assessment, Monitoring as well as Information and communication. The dependent variable of the study was financial performance and it was measured in terms of financial reporting, surplus as well as financial accountability. Donald & Delno (2009) stated that over the past two decades, institutions have capitalized on internal control systems to improve organizational productivity.

Due to the compelling needs of organizational certifications, institutions have had to install and implemented effective internal controls to facilitate effective and efficient financial reporting. The five objectives that guide the design of effective internal controls are system reliability, timely financial reports preparations, asset protection, resource optimization, error detection and prevention of fraud (Alvin et al., 1993). A reliability of financial reporting is depended on the efficiency of internal controls that provide efficiency transactions, effective book keeping and adequate system authorization. In addition, it is imperious that institutions have good disclosure of the summarized accounting information (Sebbowa, 2009).

Generally, internal control systems greatly influence the nature, type and quality of financial reporting. Dixon et al., (1990) stated that when an organization has effective measures of performance, it is able to concentrate on achieving its goals and objectives. Mawanda (2008) poised that it is believed that proper internal controls led to better financial performance,
efficient reporting process, more reliable reports and increased financial accountability. One of the administrative responsibilities of the organization is preparation of trustworthy, accurate and timely financial information that enhance effective management of the organization.

An institution of higher learning offers education and research and grants academic awards at levels of Postgraduate, Degree, Diploma, and Certificate in a variety of subjects as guided by the institutions’ statutes. In Kenya, public institutions of higher learning are created under the Act of Parliament to conduct research in different fields with the help of their qualified staff (Onsongo, 2007). The success of an institution is measured by its ability to conduct outreach programs, extension services and research. In 1990s, Kenyan economy was liberalized and parastatals were privatized creating massive changes in the nature of service delivery and development of performance goals as well as strategies (Slack, 2007).

Public institutions of higher learning, like other government institutions and parastatals, operate within such an environment and are therefore environment dependent. Public institutions of higher learning have been changing to survive and compete effectively due to economic instability, liberation, and new government policies. Vihiga County is one of the 47 counties in the Republic of Kenya. Vihiga County is home to Kaimosi Teachers Training College, Kaimosi Friends University College, Eregi Teachers Training College and Kaimosi Friends College of science and technology. This research sought to establish how financial performance of public institutions is affected by internal control systems in Vihiga County, Kenya.

1.1.1 Internal Control Systems

Saleemi (2008) stated that internal controls are systems put in place by the management of an organisation to ensure smooth and orderly running of daily organizational operations, assets protection as well as generation of accurate and reliable reports. There is need to have an
efficient control system to enable the organisation achieve its set goals (COSO, 1994). Control environment is a key characteristic of organizational management because it comprises of the organizational attitude and policies concerning internal audit (Theofanis et al., 2011).

In addition, internal control environment is the basis of other internal control elements and it provides the structures for internal control (Sudsomboon & Ussahawanitchakit, 2009). Effective control environment helps to minimize cases of fraud and provide superior internal control activities (Amudo & Inanga, 2009). Therefore, for effective financial operations in public institutions of higher learning, there is need to create an effective internal control environment. Risk assessment is the ability of an organisation to identify and analyze the possible threats to its organizational goals (Theofanis et al., 2011).

Similarly, Sudsomboon and Ussahawanitchakit (2009) stated that risk assessment is the ability of an organisation to identify and analyze the possible threats to financial statements preparations to ensure that they comply with Generally Accepted Accounting Principles. Organizational management team should be able to determine the possible threats to organizational performance and work towards minimizing them by taking all the necessary precautions. Risk should be maintained within the possible lowest and acceptable standard. In line with this, public institutions should have regular risk assessment as well risk management strategies.

Control activities are mechanisms, procedures and policies put in place in an organisation to facilitate implementation of the directives given by the management of the organisation (Aikins, 2011; Rezaee, Elam & Sharbatoghlie, 2001). Proper documentation and implementation of control activity policy provides information of organisation financial management practices (Aikins, 2011). They provide all the relevant and possible options in addressing organizational
risks. They include; separation of duties, reconciliation of bank statements, daily cash deposits among others.

Information and communication is the course of ascertaining, capturing, and properly communicating financial objectives of the organisation by the management to the employees (Aldridre & Colbert, 1994; Theofanis et al., 2011). Scholars have shown that information and communication is a key ingredient in internal control system because it influences the nature of working relations across the different organizational levels (Amudo & Inanga, 2009). Therefore, there is need for the management to adequately and clearly communicate to the staff their duties and responsibilities to enhance organizational performance.

Effective internal control system requires regular monitoring to ensure effective and efficient system performance over time. Monitoring of internal control systems ensures quality reviews and audits. Theofanis et al., (2011) indicate that monitoring of organizational operations increases efficiency of the internal control system (Amudo & Inanga, 2009). Therefore, monitoring help the management of an organisation to assess whether organizational policies drafted are effectively and efficiently implemented by the staff of the organisation.

1.1.2 Financial Performance

Gerrit and Abdolmohammadi, (2010) poised that organizational performance is the total of its activities and process. In institutions of higher learning, financial performance can be either financial or non-financial. Financial performance can be enhanced by minimizing fraud and irregularities in the systems which will in turn improve shareholders’ confidence that the management is effectively using their resources to provide better and quality services at most affordable prices. Analysis of financial performance is expected to factor in risk and its effects on the general performance (Deakin, 1998). This will translate into the institution making a
surplus out of its financial operations. Informed decisions are usually made by the management of the organization based on the regularly generated financial reports (Hayes et al., 2005). Management of an organization is able to account for the resources that they were given based on the financial reports hence the need for regular financial analysis. Emasu (2010) further stated that accountability can be financial, social or political in nature.

Whittington and Pany (2001) states that internal controls should be comprehensive by covering financial operations and reporting including adhering to financial laws. They also said that internal controls should be distributed to both the staff and management. They also stated that internal control include; preparations of programs, analysis of organizational activities and function as well as verification and distribution of reports. Internal control devices include; setting up standards of production, budgetary techniques, employee training, and inspection among others.

Bakibinga (2001) stated that there is need to separate management and ownership of the business to enhance accountability and proper stewardship through financial statements. Managers are stewards of owners’ resources and they are expected to utilize these resources well to be able to meet the expectations of the owners as well as organizational goals and objectives. Financial statements are the medium of communication that the managers use to communicate to their owners and show how effective their stewardship skills are because financial records give a clear indication of the financial performance of the organization. Morris (2011) believed that ERP systems provided a platform that ensures correct, reliable and timely financial reporting of financial information to shareholders.
1.1.3 Internal Control and Financial Performance

Internal control is a set of procedures and standards set by an organization to ensure proper, reliable and effective financial reporting, efficient financial operations and compliance to laws and regulations (Donald & Delno, 2009). They help an organization to meet its set performance goals, profit targets as well as prevent misuse and loss of funds. In brief, internal controls give directions to organizations, helping them avoid throwbacks and bombshells along the way (Jenning et al., 2008).

Organizational performance is measured by the organizational productivity against the set organizational goals with the help of proper management and insistent dedication (Donald and Delno 2009). Effective non-profits are driven by the mission of the organization, customer-oriented and sustainable. Organizational performances include both the financial performance and non-financial performance (Jenning et al., 2008).

Financial performance is normally measured by sales turnover, return on investment, and return on equity shares as well as return on capital employed. The advantages of accounting measures to institutions are important since governments expect them to publish their audited financial reports. Measures of non-financial performance of an organization include; stakeholder relations, suppliers and investors relations while measures of financial performance of an organization include; maximizing returns on investment at minimal costs, development of new products, increase market share as well as organizational communication. However, the base for good long-term performance of an organization is customer value (David, 2001).

1.1.4 Public Institutions of Higher Learning in Vihiga County, Kenya

In almost all African countries, majority of public institutions receive monetary aid from their governments. Therefore, the standards of the facilities and the level of service delivery in these institutions are dependent on the reliability of the national economy. Since 1980s, the large part
of Africa has been experiencing poor financial performance coupled with speedy population progression. Therefore, the small size of the national bread has had to be shared by the many governmental departments with majority of it going to provision of basic needs to the citizens, hence the financial aid to institutions of higher learning has been shrinking annually. In recent years, international donors and governments have put institutions of higher learning to task to justify their financial expenditures (Abagi, 1999).

Vihiga County is home to Kaimosi Friends University College, Kaimosi Friends College of Science and Technology, Kaimosi Teachers Training College and Eregi Teachers Training College. Kaimosi Friends University College offers various academic awards namely; Degrees, Diplomas, and certificates in various fields of study. Eregi Teachers Training College and Kaimosi Teachers Training College offer Diplomas and P1 certificates in teacher training, whereas Kaimosi Friends College of Science and Technology offers various Diplomas and certificates in various technical courses.

1.2 Statement of the problem

The internal control is an essential tool for corporate governance to enhance effective and reliability of financial reporting (Skaife et al., 2007). It also provides total assurance that the targets set by the organization will be achieved (Gerrit & Abdolmohammadi 2010). Normally, internal control systems are set up by organization to aid them in meeting their objectives, ensure generation of reliable financial reports, increase organizational compliance to financial regulations as well as prevent loss of organizational resources (Emasu, 2010). Active involvement and proper financial management of public Institutions of Higher Learning by their management has fostered growth and prosperity of these institutions.

However, related studies like the Ndiwa (2014) and the Ndifen (2014) that have been conducted on higher learning institutions’ internal control systems indicate that organizational internal
control and financial performance is an understudied area, (Gerrit & Abdolmohammadi, 2010). Some of the challenges experienced concerning internal controls include; low liquidity ratios, untimely financial reporting, low accountability, frauds and mismanagement of funds. Mohammed, (2003) researched on the effect of the internal controls of Ethiopian Airlines in Nairobi, Esmailjee, (1993) carried out a case study of internal controls of Nyayo Bus Service Corporations in Nairobi and Chira, (2009) found out that various internal control systems do exist in the banking and transport industries although more weight had been given to operational controls compared to other types of controls.

Simiyu (2011) found that middle institutions of learning in Kenya had a number of internal control challenges. They included liquidity problems, poor financial accountability, and untimely generations of financial reports, frauds, and misuse of institutional funds. However, the study did not focus on the study variables of this study as well as none of them were conducted in Vihiga County. This study was motivated by the fact that there are many unaddressed areas about internal control in relation to financial performance of tertiary institutions and the fact that there are no earlier related empirical studies on internal control systems and financial performance in institutions of higher learning in Vihiga County, Kenya.

1.3 Research Objectives

The study was anchored on a general and specific objectives captured below.

1.3.1 General Objective

To establish the effect of internal control systems on financial performance of institutions of higher learning in Vihiga County, Kenya

1.3.2 Specific Objectives

The specific objectives of the study were:

(i) To determine the effect of control activities on financial performance of public institutions of higher learning in Vihiga County, Kenya.
(ii) To establish the effect of risk assessment on financial performance of public institutions of higher learning in Vihiga County, Kenya.

(iii) To evaluate the effect of control environment on financial performance of public institutions of higher learning in Vihiga County, Kenya.

(iv) To establish the effect of information and communication on financial performance of public institutions of higher learning in Vihiga County, Kenya.

(v) To establish the effect of monitoring on financial performance of public institutions of higher learning in Vihiga County, Kenya.

1.4 Research Questions

The study sought to answer the following research questions in view of the respective specific objectives:

(i) What is the effect of control activities on financial performance of public institutions of higher learning in Vihiga County, Kenya?

(ii) What is the effect of risk assessment on financial performance of public institutions of higher learning in Vihiga County, Kenya?

(iii) What is the effect of control environment on financial performance of public institutions of higher learning in Vihiga County, Kenya?

(iv) What is the effect of information and communication on financial performance of public institutions of higher learning in Vihiga County, Kenya?

(v) What is the effect of monitoring on financial performance of public institutions of higher learning in Vihiga County, Kenya?

1.5 Scope of the Study

A study was conducted to establish the effect of internal control on financial performance of Public Institutions of Higher Learning in Vihiga County, Kenya. The management and staff in the finance, procurement and audit departments of the institutions under study formed the target
population of the study since they are well informed on the subject under research. The study covered a period of five years, thus from the year 2011 to the year 2015.

1.6 Significance of Study

The recommendations of the study are of interest to the management of public institutions of higher learning who would be interested to come up with various ways in which to improve their efficiency and effectiveness through the use of proper internal control system in all their operations. Furthermore the study helps to inculcate scientific and inductive thinking and promotes the development of logical habits and thinking by all staff in the organization. Government and policy makers will gain insight on the critical role of internal controls in the financial performance of public institutions of higher learning. Other institutions will benefit through the understanding of the important role that the internal control systems play in enhancing accountability and effect on financial performance.

This study is of interest to academicians and future researchers who will be undertaking other researches related to this. This is because it increases their knowledge on internal control and provides the necessary information to be incorporated into their work. The study also helps them come up with better proposals on internal control and their effects on financial performance of public institutions of higher learning in Vihiga County, Kenya.

1.7 Organization of the Study

The study comprises of five chapters. Chapter one has the background of the study, statement of the problem, objectives of the study, and research questions, scope and significance of the study and the organization of the study. Chapter two reviews the supporting theories and empirical studies been done on the study objectives and also a conceptual framework for the study. Chapter three focuses on the research methodology that was employed in evaluating the relationship between internal control system and financial performance of Public Institutions of
Higher Learning in Vihiga County. This entailed the research design, target population and sample, data collection and data analysis procedures used in the study. Chapter four was on data analysis and presentation while chapter five is on summary, conclusion and recommendations of the study.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the literature advanced in the area of internal control systems on financial performance of companies. The chapter commences with a highlight of various theories relevant to this study. The theories include: the agency theory, stewardship theory, positive accounting theory, and attribution theory which form the basis of the concept of internal control systems. To assist in identification of existing gaps in the literature, empirical literature is reviewed in this chapter. A conceptual framework is also presented based on the study objectives.

2.2 Theoretical review

A theory is a group of principles designed to provide vivid explanations on certain facts or phenomena and they have been globally tested and agreed upon by scholars (Creswell, 2006). The theories that were used in the study are: Stewardship theory, Positive accounting theory, Agency theory and the Attribution theory.

2.2.1 Agency theory

This theory was designed in 1976 by Jensen and Meckling. Agency is used to define the nature of the relationship between principal (s) and agent (s) in a contract setting where the agent is given some decision making power. It is also used to define the relationship between managers and investors by defining the duties and responsibilities ran by the manger on behalf of the investor and the reward that the manager receives from the investor (Jensen & Mckling, 1976). Agency theory states that a company comprises of a number of contracts between investors and managers. The theory further states that managers are more informative than investors making it hard for investors to effectively determine whether their interests are well taken care of. Therefore, the theory stated that there is need to have proper and adequate contracts in an organization to minimize opportunistic behaviors by the managers (Mwangi, 2012). To address
the interest of both the manager and investor, the contract should draft in a manner that captures
the two interests. A good agent-principal relationship is whereby the investor has systems that
enable them to effectively monitor the work of their managers (Jussi & Petri, 2004).

The theory also state that incomplete contract information on the expectation of the investors as
well as the managers could have adverse effects on the general performance of the organization.
This is because the managers will have inadequate knowledge on what is expected of them by
the agents leading to under-performance. Therefore, this theory assumes the nature of the
relationship between managers and agent is based on wealth maximization (Jensen & Meckling,
1976). This theory is relevant to the study since internal control mechanisms are established in
organizations to minimize agency cost and improve general organizational performance (Payne,
2003; Abdel-Khalik, 1993).

In relation to the study, the owners of the institutions of higher learning have given mandate to
the management of these institutions to effectively manage their resources and ensure smooth
running of the institution on a daily basis through delegation of duty. Effective internal control
systems ensure that investors interests are well taken care of. In addition, this theory supports
existence of control activities, control environment and risk management.

2.2.2 Stewardship Theory

Davis, Schoorman and Donaldson (1997) define a steward as a person who ensures that the
investor’s wealth is well protected in order to maximize organizational profits. Donaldson and
Davis (1991) states that this theory focuses on the ability of the management of the organization
to align their goals with the institutional goals. They further state that stewards’ satisfaction and
motivation is driven by the success of the organization. Donaldson and Davis (1991) argue that
effective stewardship requires employee empowerment and provision of independence based on
trust. This theory states that for maximum wealth creation, there should be maximum
independence between employees or management and investors. Fama (1980) opposes that myth that advancement career development is necessary for managers to be good overseers while Shleifer, Andlei and Vishny (1997) contends that the financial return given to the investors by the managers creates good reputation and it also encourages the investors to re-invest with them.

In Agency theory, Meckling and Jensen (1994) states that agency cost is usually lower when the investors form part of the management of the organization for monitoring purposes. However, stewardship theory is complete opposite of the agency theory since it does not advocate for investors monitoring of the organizational performance through internal audit. Nonetheless, Donaldson and Davis (1991) further note that better financial returns are experienced when these theories are jointly exercised in an organization. In this study, the steward theory supports the fact that managers of institutions of higher learning act as caretakers of suppliers, shareholders, consumers, creditors and employees of these institutions.

2.2.3 Positive Accounting Theory

This theory was developed by Watts and Zimmerman in 1986 and it states which accounting method a firm is supposed to use and which one it is not supposed to use. This theory assumes that people are opportunistic and they are driven by self-interest in wealth creation and maximization (Deegan & Unerman, 2006). Based on this theory, organizations embrace internal control systems that will cater for the needs of the managers and investors to monitor operational costs of the organization.

Accounting research can either be positive or normative research. Positive accounting researches forecast and explain certain accounting elements. Theories aligned to positive accounting research are normally called positive theories. They are based on observations that can be tested and improved over time (Deegan & Unerman, 2006). Normative theories are anchored on beliefs and they describe how certain accounting practices should be executed (Deegan & Unerman,
2006). This theory explains the existence of monitoring, risk assessment, control activities as well as control environment in the public institutions of higher learning.

2.2.4 Attribution Theory

This theory was developed by Fritz Heider in 1958. Attribution theory explains how behavior and events are interpreted as well as their causes (Schroth & Shah, 2000). Reffett (2007) asserted that assessors attribute difference in handling similar situations to difference in personality while the difference is attributed to situational behavior. Similar sentiments were shared by Wilks and Zimbelman (2004) and Schroth & Shah (2000). Similarly, assessors often deduce internal control failure on auditors’ negligence as well as generation of revenue. Bonner et al. (1998) said that when fraud that could affect the financial performance of an organization is not pointed out by the auditor, he/or she is likely to be sued. Reffett’s (2007) further stated that auditors’ inability to detect fraud risk can be very detrimental for an organization.

Attribution theory stated that auditing determiners the efficiency of internal control systems of the organization. Therefore, they need to have an adequate understanding of the organizational internal control for proper revenue generation. This theory is relevant to the study since it proposes that control activities like internal audits are key elements of control systems that they help to prevent fraud.

2.3 Internal Control Systems

Whittington and Pany (2001), defines control environment as a a composition of leadership style, organizational mission and vision as well as the ethical values of the organisation that guides the day to day operations of the institution (Verschoor, 1999). They provide a ground for the formation of internal control systems as well as its operational framework. Though at times, this is not always the case because the management despises the internal control and lack of training leads to ineffective application of the systems (Whittington & Pany, 2001). Audit
committees are always not independent and boards of management have inadequate time to play their supervisory role.

The effectiveness and efficiency of internal control and its operations ensure reliability of financial reporting as well as provide aid in obedience to regulations and laws (Whittington & Pany, 2000). The risks that organizations go through keep changing from time to time with the change in organizational goals, organizational structure and control environment. Therefore, a sound internal control system is dependent on consistent and systematic risk evaluation of the company since the role of internal control is to help an organisation manage and control its risk in order for it to achieve maximum profit (John, 2011).

Ray and Pany (2001) states that another key ingredient of internal control is control activities. The authors define control activities as procedures and policies put in place under the directives of the management to ensure proper financial management. They include; physical controls to assets and records, reviews of financial performance, performance forecasting, information processing and separations of duties.

Another key element of internal control is monitoring (Aikins, 2011; Rezaee, Elam and Sharbatoghli, 2001). The role of monitoring internal control is ensure that that they reliable in executing its operations through regular and systematic routine evaluations. Monitoring also included non-routine activities like periodic audits (Whittington & Kurt 2001). Designed internal control is expected to be of great significance to the management and the finance team (Ogneva, Subramanyam, & Raghunandan, 2007). Currently, almost all kinds of organisation have embraced internal control by coming up with policies aimed at protecting their assets and improve financial performance of the organization (Skaife et al., 2007).
2.4 Financial Performance

Stoner (2003) defines performance as the ability of the organization to have efficient operations, maximum profit margins and survival tactics in the harsh and risky working environment. Sollenberg and Anderson (1995) states that financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Dixon et al (1990) states that suitable measures of performance are aimed at redirecting the organizational path to be in line with its strategic goals.

According to Salim (2003, financial performance of an organisation is assessed based on the organisational output in relations to organisational objectives. Organizations normally put in place a number of operations to evaluate and monitor its ability to meet its goals through evaluating employees’ responsiveness to new skill and knowledge, embracing new technology and structures and investing capital in the operations of the organisation (Schneider & Wilner, 1990). There is need to have key performance indicators in an organisation to aid in monitoring organisational processes, operations and note any significance difference in the observed output from the expected output (Keror, 2012). This will go a long way in providing a platform in addressing the possible weaknesses, failures and threats to the success of the organisation.

2.5 Empirical Review

The study reviewed various empirical literatures, which is captured below.

2.5.1 Internal Control System and Financial Performance in Tertiary Institutions

A study carried out by Ndiwa (2014) examined the influence of internal control systems on financial performance of African Institute of Research and Development Studies. The study was conducted in African Institute of Research and Development Studies campuses only. The study established that these institutions had adequate resources but weak financial performance leading to closure of some of them. The study pointed out the existence of internal control
strategies and audit department. However, the audit department did not have adequate staff. The study established the existence of a positive relationship between financial performance and internal control. In addition, the staff of the audit department had a significant effect on the general finance performance of the institution. The study showed lack of effective checks and balance and security to reduce theft and fraud due audit department having inadequate staff.

Ndifon (2014) studied the role of internal control activities on the financial performance in tertiary institutions in Nigeria. The study was carried out at Cross River State College of Education, Akamkpa. The findings of the study indicated that all the control activities in the institution were spearheaded by the management. In addition, there was separation of duties among the employees in the finance department and there was consistent supervision of work by the superiors. In addition, the school conducted annually external audit of financial statements. However, there existed no statistical significant relationship between financial performance and internal control activities. The study showed lack of effective transactional checks and balance and security to reduce theft and fraud. In addition, the college failed to conduct regular staff training.

Mwakimasinde, Odhiambo and Byaruhanga (2014) examined how financial performance of sugarcane out grower companies in Kenya was influenced by internal control systems. The regression findings that study showed a statistical significant relationship between financial performance and internal control systems. Kinyua (2015) analysed how financial performance of Nairobi Securities Exchange companies were affected by internal control environment. The findings of the study revealed the existence of positive relationship between financial performance and internal control environment.
The findings in the Kinyua (2015) study were seconded by the findings of Mawanda (2008) that stated that effective implementation of proper control systems may improve the financial performance of an organization. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

Kamau, (2014) explored how financial performance of manufacturing firms in Kenya were affected by internal controls. The study found out that most of the companies had proper control environment which positively influenced their financial performance, the staffs of the companies under study were well trained on financial management systems and the organisations had security systems to protect their assets and prevent fraud. Regression analysis indicated the existence of a significant positive financial performance and internal control. Palfi and Muresan (2009) studied the significance of proper internal control system in the baking industry. The study findings showed teamwork between the management and internal audit department through regular meetings. Abu Musa (2010) found out that many banks in Saudi had embraced information technology and communication and they also had proper and effective security controls. In addition, the management and staff of the bank were well trained in computerized accounting information systems (Simiyu, 2011).

2.6 Summary of Literature and Research gaps

Majority of the existing literature review has revealed that financial performance was positively influenced by effective internal control systems; however some of them indicated the contrary. Lack of adherences to regulations was a major setback in internal controls of many institutions.
In addition, little is known on the influence of risk assessment and monitoring on financial performance of learning institutions. Also, majority of the studies have concentrated on the banking industry and other business oriented organisation with little attention paid to public institutions of higher learning.

Moreover, from the literature reviews done it has been found out that realization of positive financial performance and value for money depends on whether firms have Internal Controls. Non-compliance to the internal controls is one of the major hindrances to the attainment of positive financial performance in public institutions of higher learning. Whereas a lot has been done on control environment and control activities there is little done about internal audit in relation to value for money; what is greatly studied is value for money audits. Weak, non-compliance, non-existent or absent public financial management functions (Internal Control Systems) are likely to negate any advantages that might be inherent in achieving positive financial performance of a firm.

Therefore, there is need to establish the relationship between the internal control systems and financial performance of public institutions of higher learning in Vihiga County, Kenya. It can be concluded from the literature that Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring are significant predictors of financial performance.
2.7 Conceptual Framework

A conceptual framework is a diagram that shows how the variables of the study are interrelated. It shows the relationship between the independent and dependent variable of the study.

**INTERNAL CONTROL SYSTEM**

- Control Activities
  - Physical controls
  - Segregation of duties

- Risk Assessment
  - Nature
  - Size
  - Complexity or Organization

- Control Environment
  - Organization structure
  - Authority
  - HR policies & Procedures

- Information & Communication
  - Transfer of information
  - Record transactions
  - Accountability for assets

- Monitoring
  - Audit independence
  - Supervisory activities
  - Regular management activities

**FINANCIAL PERFORMANCE**

- Surplus (Income-Expenses)
- Cost Management
- Accountability

**Figure 2.1: Conceptual framework**

*Source: Researcher, 2017*
CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the research methodology of the study that was used to achieve the objective of the study. Research methodology is the procedural plan that is adopted by the researcher to validly, objectively, economically and accurately answer the research questions. It is a detailed explanation of the procedures and techniques that shall be used while collecting, processing and analyzing data. This section of the study therefore describes the research design, target population and area, sampling frame, sample and sampling technique, data collection instruments, procedures, analysis management and the ethical considerations that the study shall use.

3.2 Research design

A research design is an outline used to describe how a research will be conducted (Kothari, 2007). This study employed a cross-sectional descriptive survey design since it provides a clear outcome and the characteristics associated with it at a specific point in time. The descriptive design was relevant for this study particular study since it focuses at one point in time and does not require several rounds of monitoring. The descriptive survey attempted to document current conditions to describe what exists at the moment (Mouser & Katton, 1989). The study employed both quantitative and qualitative data.

3.3 Target Population

Kombo and Tromp (2011) stated that a population is a group of items, objects or individuals where a study can obtain its sample. Cooper and Schindler (2011) stated that a population is the total group of items/people that the researcher intends to draw inference while Kothari (2011) poised that population is the universe of the researcher. Target population is the category of a population that contains the desired characteristics of a study (Cooper & Schindler, 2011; Kothari, 2011; Oso & Onen 2011; Kombo & Tromp, 2011). They contend that a population of study should possess the characteristic that meets a researcher's study interests.
The target population for the study comprised employees in accounting/finance, administration and operations departments in the four public institutions of higher learning in Vihiga County. The number of staff in the accounts/finance, administration and operations departments in the four public institutions of higher learning in Vihiga County was 40 staff for KAFUCO, 36 staff for KTTC, 33 staff for ETTC and 31 staff for KFCST, totaling to 140 employees.

3.4 Sampling Design
A sample is a subsection of a population that a researcher intends to interview to be representation of the total population while sampling is deliberate rather than haphazard methods of selecting subjects for observation to enable scientists to infer conclusions about a population (Kothari, 2007). Mugenda and Mugenda (2003) proposed that a good sample should be between 10-30% of the total study population. The study focuses attention to the entire population of the four institutions. The information needed could be obtained from those who were involved in monitoring and enforcing controls at the institutions. Accordingly, the finance, administration and Operations departments were considered for the study. A purposive sampling approach was used in this study to allow the research to pick concerned staff especially from the accounts/finance, administration, and operations department within the four public institutions of higher learning in Vihiga. The sample of the study included 96 staff at the institutions of higher learning in Vihiga County as shown in table 3.1

<table>
<thead>
<tr>
<th>Department</th>
<th>KAFUCO</th>
<th>KTTC</th>
<th>ETTC</th>
<th>KFCST</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts/Finance</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Administration</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>42</td>
</tr>
<tr>
<td>Operations</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>27</strong></td>
<td><strong>23</strong></td>
<td><strong>23</strong></td>
<td><strong>23</strong></td>
<td><strong>96</strong></td>
</tr>
</tbody>
</table>

Source: Research, 2017
3.5 Data Collection Instrument

Primary data in this study was collected using a semi-structured questionnaire. The questionnaire was deemed to be the best data collection tool because the study participants are literate. In addition, the use of questionnaire ensured that the researcher upholds respondents’ anonymity and confidentiality while allowing the researcher to collect data faster from a wide population (Kothari, 2007). The questionnaire was divided into two sections where section one deals with demographic information while section two deals with the study variables. Secondary data was collected from the institutions’ audited financial records. This data helped in reinforcing the findings of the primary data as well as providing additional data that the questionnaire could not collect.

3.6 Data Collection Procedure

An introductory letter from Kenyatta University’s graduate school and a research permit from NACOSTI were used to introduce the researcher to the respondents. The researcher administered the questionnaire himself to offer assistance to the respondents where needed and to enhance the reliability of the data collected. The researcher used drop and pick method to give adequate time to the respondents. Physical contact between the researcher and the respondents allowed them to have a good rapport which reduced suspicion and motivated the respondents to honestly answer the questions in the questionnaire.

3.7 Validity and Reliability

3.7.1 Validity of Study Instruments

Validity is used to measure the accuracy of a data collection tool in line with the study objectives. In cases where the validity of the data collection tool is established, the data collected using that tool is believed to accurate and in line with the study objectives (Mugenda & Mugenda, 2003). In addition, the validity of the data collection instrument is improved by using facts in data collection (Yin, 2003). The researcher’s supervisor helped to ensure the validity of the questionnaire by assessing its contents in relation and correcting it to the study variables.
3.7.2 Reliability of Study Instrument

Reliability is the measure of internal consistency of the items in a data collection tool (Hair et al., 1998). The researcher ensured the reliability of the questionnaire by conducting a reliability test analysis using Cronbach’s Alpha on SPSS. If the Cronbach's Alpha co-efficient of the items is 0.70 and above, then the questionnaire is said to be reliable. To determine the reliability of the findings, Cronbach's alpha correlation coefficient of was computed at 95% confidence interval for all the variables under study. Total Cronbach's alpha correlation coefficient was found to be 0.852, which indicated that the level of internal consistency for the items was 85.2 percent. Fraenkel and Wallen (2000) states that items are considered reliable if they yield a reliability coefficient of 0.70 and above. Therefore, the study showed the existence of acceptable level of inter-item consistence.

3.8 Data Analysis and Presentation

Data analysis is the process of data cleaning, coding and editing as well as error checking. Data was analyzed using descriptive (mean and standard deviation) and multiple regression analysis. Statistical Package for Social Science (SPSS) was utilized in data analysis. Data was presented using charts and tables. Regression analysis was used to show the statistical relationship of the variables as shown:

\[ Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \epsilon \]

Where:

- \( Y \) = Financial Performance
- \( X_1 \) = Control environment
- \( X_2 \) = Risk assessment
- \( X_3 \) = Control Activities
- \( X_4 \) = Information and Communication
- \( X_5 \) = Monitoring
- \( \beta_0 \) = Constant
\( \epsilon = \text{Error term} \)

### 3.9 Ethical Considerations

Ethics is a branch of philosophy that deals with the conduct of people and guides the norms or standards of behaviour of people and relationships with each other (Kovacs, 1985; Blumberg et al, 2005). In line with this, the researcher informed all the participants the objective of the study and asked them to participate voluntarily. The researcher maintained respondents’ anonymity and kept confidentiality of the collected data. In addition, the researcher sought permission to conduct research from relevant authorities. The researcher ensured that nothing could be traced back to any of the respondents should the findings of this study be published. Where possible, pseudonyms were used unless respondents preferred the use of their real names.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter contains presentation and interpretation of the data collected in the study. The first section presents the response rate, reliability test and demographic characteristics of the respondents. The second section presents the findings of the study and discussions based on the objectives that the study sought to achieve. The study then compares and contrasts the findings with other studies and literature.

4.2 Response Rate

Out of the total 96 questionnaires that were sent to the respondents, 70 of them were dully filled and returned by the respondents. Hence, this constituted a response rate of 72.9%. This was considered a very reliable response rate for generalizations of study findings since according to Zikmund et al., (2010) a response rate of 70 percent and above is said to be a reliable response rate.

4.3 Demographics Analysis

4.3.1 Gender Analysis

The study sought to establish the gender of the respondents. The findings of the study revealed that 74.3 percent of the respondents were male while only 25.7 percent of them were female. The study findings imply that there were more male than female in the departments that were surveyed. Figure 4.1 shows the findings of the study.
4.3.2 Work Duration

The respondents were asked to state the number of years that they had worked in their respective institutions. The findings reveal that majority of the respondents, thus 74.3 percent had relevant work experience having worked for the institutions for a period of more than 5 years. Hence it can be revealed that the majority are those directly involved the implementation of the Internal Control System. Therefore, their responses are deemed to reflect what actually takes place in the institution. Figure 4.2 shows the findings of the study.
4.4 Descriptive Analysis

4.4.1 Control Activities

The respondents were asked whether their respective institutions had adequate and effective control activities. The findings of the study revealed that majority of the respondents, 61.4 percent stated that their respective institutions had adequate and effective control activities with a mean of 1.39 and standard deviation of 0.49. These results were influenced by existence of proper allocation and distribution of resources and segregation of duties. Figure 4.3 shows the findings of the study.

![Figure 4.3: Presence of Control Activities](source: Research data, 2017)

The respondents were further asked to state whether control activities affected financial performance of their institutions. The findings of the study indicated that majority of the respondents, 77.1 agreed that control activities affected financial performance by ensuring proper planning and proper utilization of resources. The mean of this statement was 1.23 and the standard deviation was 0.43. Figure 4.4 shows the findings of the study.
The study sought to determine the effect of control activities on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The findings are presented in a five point Likert scale where SA=strongly agree (5), A=agree (4), N=neutral (3), D=disagree (2), SD=strongly disagree (1), T=total, M=mean and Std. D= standard deviation. The results of this analysis are as provided below in table 4.1

**Table 4.1: Control Activities**

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are regular internal audit reports generated in the institution</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is adequate segregation of duties in the finance and accounts departments</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are physical controls to prevent excess allocated funds</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are proper checks of every employee’s work by the others</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
There is adequate corrective action taken to address weaknesses in audit reports.

**Source: Research data, 2017**

The study in table 4.1 found that majority of the respondents agreed that there were regular internal audit reports generated in their institutions, there was adequate segregation of duties in the finance and accounts departments, there were physical controls to prevent excess allocated funds and there was proper checks of every employee’s work by the others as well as adequate corrective action was taken to address weaknesses in audit reports. These findings were seconded by the findings of Mawanda (2008) that stated that effective implementation of proper control systems may improve the financial performance of an organization. Table 4.1 above shows the findings of the study.

Finally, the study sought to establish the average annual expenditure (in Kenya Shillings) their institutions spent on control activities. The findings of the study revealed the mean annual expenditure was between 30,001-50,000 Kshs. (3.25) and the standard deviation was 1.28. Figure 4.5 illustrates the findings of the study.

![Figure 4.5: Annual Expenditure on Control Activities](source: Research data, 2017)
4.4.2 Risk Assessment

The study sought to establish whether their institutions had proper risk assessment program. Majority of the respondents agreed that their institutions had proper risk assessment program because they carried out continuous financial assessment of their organizations coupled with regular, timely and profound audits. The mean response was 1.33 and the standard deviation was 0.47. Figure 4.6 illustrates the findings of the study.

![Figure 4.6: Existence of Risk Assessment Program](image)

Source: Research data, 2017

### Table 4.2: Risk Assessment and Financial Performance

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does risk assessment affect financial</td>
<td>Yes</td>
<td>71.4</td>
<td>1.29</td>
<td>0.46</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>28.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

The respondents were further asked whether risk assessment affected financial performance of their institutions. The findings of the study indicated that majority of the respondents agreed that risk assessment affected financial performance of their institutions by safeguarding the
institutions’ assets and enhancing financial performance. These findings have been supported by the mean of 1.29 and a standard deviation of 0.46. Table 4.2 above illustrates the findings of the study.

The study sought to establish the effect of risk assessment on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The results of this analysis are as provided below in table 4.3

Table 4.3: Risk Assessment

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>The institution has effective risk assessment tools</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The institution has adequate and effective risk management system</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All employees are well trained on risk assessment</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk assessment has affected the institution’s revenue for the last five years</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: Research data, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The findings in table 4.3 of the study revealed that majority of the respondents agreed that their institutions had effective risk assessment tools and adequate and effective risk management system. The results also indicated that all employees were well trained on risk assessment and risk assessment affected the institution’s revenue for the last five years.
Finally, the respondents were asked to state the average annual expenditure (in Kenya Shillings) their institutions spent on risk assessment program. The results of this analysis are as provided in table 4.4

**Table 4.4: Annual Expenditure on Risk Assessment**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average, how much does your institution spend annually on risk assessment?</td>
<td>0-10,000</td>
<td>1.4%</td>
<td>3.29</td>
<td>1.18</td>
</tr>
<tr>
<td></td>
<td>10,001-30,000</td>
<td>31.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,001-50,000</td>
<td>27.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50,001-100,000</td>
<td>17.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 100,000</td>
<td>22.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**

The findings in table 4.4 of the study revealed the mean annual expenditure was between 30,001-50,000 Kshs (3.29) and the standard deviation was 1.18.

**4.4.3 Control Environment**

The study sought to establish whether their institutions had proper control environment. The results of this analysis are as provided below in table 4.5

**Table 4.5: Control Environment**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the institution have conducive control environment?</td>
<td>Yes</td>
<td>62.9%</td>
<td>1.37</td>
<td>0.49</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>37.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**
The findings indicate that majority of the respondents thus 62.9 percent agreed that their institutions had proper control environment while a smaller percentage thus 37.1 percent of them stated otherwise. Table 4.5 above illustrates the findings of the study.

The respondents were further asked whether control environment affected financial performance of their institutions. The results of this analysis are as provided below in table 4.6

**Table 4.6: Control Environment and Financial Performance**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does control environment affect financial performance of the institution?</td>
<td>Yes</td>
<td>71.4</td>
<td>1.29</td>
<td>0.46</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>28.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**

Table 4.6 above shows that the control environment is positively related to financial performance with a percentage of 71.4 and a standard deviation of 0.46. The results seem to agree with Mawanda’s (2008) assertion of that effective implementation of proper control systems may improve financial performance of the organization.

The study sought to evaluate the effect of control environment on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The table below presents the results. The results of this analysis are as provided below in table 4.7

**Table 4.7: Control Environment**

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has effective control environment</td>
<td>%</td>
<td>34.3</td>
<td>35.7</td>
<td>14.3</td>
<td>11.4</td>
<td>4.3</td>
<td>100</td>
<td>3.84</td>
</tr>
<tr>
<td>The institution finance and audit departments are</td>
<td>%</td>
<td>41.4</td>
<td>30.0</td>
<td>15.7</td>
<td>10.0</td>
<td>2.9</td>
<td>100</td>
<td>3.97</td>
</tr>
</tbody>
</table>
adequately staffed

Staff are well trained on accounting and financial management system

Senior staff authorizes access to valuable information

The institution accounting and financial management system safeguards the institutions’ assets

Source: Research data, 2017

The findings in table 4.7 of the study revealed that based on a scale of 1 to 5, majority of the respondents agreed that their institutions had effective control environment and adequately staffed finance and audit departments. The results also indicated that the staff was well trained on accounting and financial management system, senior staff authorized access to valuable information and their institution accounting and financial management system safeguarded the institutions’ assets.

Finally, the respondents were asked to state the average annual expenditure (in Kenya Shillings) their institutions spent on control environment program. The results of this analysis are as provided below in table 4.8

Table 4.8: Annual Expenditure on Control Environment

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average, how much does your institution spend annually on control environment?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0-10,000</td>
<td>1.4</td>
<td>3.29</td>
<td>1.18</td>
</tr>
<tr>
<td></td>
<td>10,001-30,000</td>
<td>31.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,001-50,000</td>
<td>27.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The findings in table 4.8 of the study revealed the mean annual expenditure was between 30,001-50,000 Kshs (3.29) and the standard deviation was 1.18. Table 4.8 above shows the findings of the study.

4.4.4 Information and Communication

The study sought to establish whether their institutions had effective flow of information and communication. The results of this analysis are as provided below in table 4.9

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the institution have effective</td>
<td>Yes</td>
<td>72.9</td>
<td>1.27</td>
<td>0.45</td>
</tr>
<tr>
<td>information and communication?</td>
<td>No</td>
<td>27.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

Table 4.9 above shows that information and communication is positively related to financial performance with majority of the respondents, thus a percentage of 72.9 and standard deviation of 0.45. The results seem to agree with Abu Musa’s (2010) findings that information technology and communication has a positive influence on financial performance.

The respondents were further asked whether information and communication affected financial performance of their institutions. The results of this analysis are as provided below in table 4.10
Table 4.10: Information and Communication and Financial Performance

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does information and communication affect financial performance of the institution?</td>
<td>Yes</td>
<td>77.1</td>
<td>1.23</td>
<td>0.42</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>22.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

The findings in the table 4.10 of the study indicated that majority of the respondents that information and communication affected financial performance of their institutions. The study established that effective information and communication prevent wastages of resources and duplication of duties. Table 4.10 above illustrates the findings of the study.

The study sought to evaluate the effect of information and communication on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The results of this analysis are as provided below in table 4.11

Table 4.11: Information and Communication

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has effective information and communication channels</td>
<td>%</td>
<td>24.3</td>
<td>35.7</td>
<td>20.0</td>
<td>14.3</td>
<td>5.7</td>
<td>100</td>
<td>3.59</td>
</tr>
<tr>
<td>Our institution has invested on modern and efficient information and communication technologies (computers, internet and other systems)</td>
<td>%</td>
<td>32.9</td>
<td>44.3</td>
<td>10.0</td>
<td>10.0</td>
<td>2.9</td>
<td>100</td>
<td>3.94</td>
</tr>
<tr>
<td>Our institution has adequate transfer of information</td>
<td>%</td>
<td>40.0</td>
<td>32.9</td>
<td>10.0</td>
<td>12.9</td>
<td>4.3</td>
<td>100</td>
<td>3.91</td>
</tr>
</tbody>
</table>
The findings in table 4.11 of the study revealed that on a scale of 1 to 5, majority of the respondents agreed that their institutions had effective information and communication channels and they had invested on modern and efficient information and communication technologies (computers, internet and other systems). The results also indicated that the institutions under study had adequate transfer of information, excellent record of transactions and proper accountability for assets. In addition majority of the respondents agreed that effective flow of information and communication enhanced financial accountability.

Finally, the respondents were asked to state the average annual expenditure (in Kenya Shillings) their institutions spent on information and communication. The results of this analysis are as provided below in table 4.12

### Table 4.12: Annual Expenditure on Information and Communication

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average, how much does your institution spend annually on</td>
<td>0-10,000</td>
<td>2.9</td>
<td>3.87</td>
<td>1.12</td>
</tr>
<tr>
<td>information and communication?</td>
<td>10,001-30,000</td>
<td>12.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,001-50,000</td>
<td>15.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50,001-100,000</td>
<td>31.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The findings in table 4.12 of the study revealed the mean annual expenditure was between 50,000–100,000 Kshs (3.87) and the standard deviation was 1.14. This indicates that the institutions under study allocated substantial funds to facilitate information and communication of their institutions.

4.4.5 Monitoring

The study sought to establish whether their institutions had effective monitoring and evaluation activities. The results of this analysis are as provided below in table 4.13.

Table 4.13: Monitoring

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the institution have effective monitoring and evaluation activities?</td>
<td>Yes</td>
<td>72.9</td>
<td>1.27</td>
<td>0.45</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>27.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

Majority of the respondents agreed that their institutions had effective flow of information and communication. The mean response was 1.27 and the standard deviation was 0.45. Table 4.13 above illustrates the findings of the study.

The respondents were further asked whether financial monitoring affected financial performance of their institutions. The results of this analysis are as provided below in table 4.14.

Table 4.14: Monitoring and Financial Performance

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does financial monitoring affect financial</td>
<td>Yes</td>
<td>80.0</td>
<td>1.20</td>
<td>0.40</td>
</tr>
</tbody>
</table>
performance of the institution?

No 20.0

Source: Research data, 2017

The findings in table 4.14 of the study indicated that majority of the respondents agreed that financial monitoring affected financial performance of their institutions with the mean of 1.2 and a standard deviation of 0.40. The study established that financial monitoring prevent wastages of resources and enhanced financial accountability.

The study sought to evaluate the effect of financial monitoring on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The results of this analysis are as provided below in table 4.15

Table 4.15: Financial Monitoring

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>The expenditure of the institution are properly monitored</td>
<td>%</td>
<td>31.4</td>
<td>35.7</td>
<td>14.3</td>
<td>11.4</td>
<td>7.1</td>
<td>100</td>
<td>3.73</td>
</tr>
<tr>
<td>The audit department of the institution is independent</td>
<td>%</td>
<td>44.3</td>
<td>27.1</td>
<td>11.4</td>
<td>14.3</td>
<td>2.9</td>
<td>100</td>
<td>3.96</td>
</tr>
<tr>
<td>The institution has proper supervisory activities to enhance accountability and transparency</td>
<td>%</td>
<td>34.3</td>
<td>37.1</td>
<td>15.7</td>
<td>8.6</td>
<td>4.3</td>
<td>100</td>
<td>3.89</td>
</tr>
<tr>
<td>There are regular management meetings to assess the financial status of the institution</td>
<td>%</td>
<td>31.4</td>
<td>37.1</td>
<td>15.7</td>
<td>12.9</td>
<td>2.9</td>
<td>100</td>
<td>3.81</td>
</tr>
</tbody>
</table>

Source: Research data, 2017
The findings in table 4.15 of the study revealed that majority of the respondents agreed that the expenditure of their institutions were properly monitored and their audit departments were independent. The results also indicated that their institutions had proper supervisory activities to enhance accountability and transparency and there were regular management meetings to assess the financial status of the institutions.

Finally, the respondents in the four institutions under study were asked to state the average annual expenditure their institutions spent on financial monitoring. The results of this analysis are as provided in table 4.16

**Table 4.16: Annual Expenditure on Financial Monitoring**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>On average, how much does your institution spend annually on financial monitoring?</td>
<td>0-10,000</td>
<td>1.4</td>
<td>4.17</td>
<td>0.71</td>
</tr>
<tr>
<td></td>
<td>10,001-30,000</td>
<td>21.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,001-50,000</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50,001-100,000</td>
<td>15.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 100,000</td>
<td>41.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**

The findings in table 4.16 of the study revealed the mean annual expenditure was between 50,000- 100,000 Kshs (4.17) and the standard deviation was 0.71. Table 4.16 above shows the findings of the study. These findings indicate that the institutions under study allocated enough funds to take care of expenditure on financial monitoring.
4.4.6 Financial Performance

The respondents were asked whether their institutions had put in place effective control measures to safeguard their assets and resources. The results of this analysis are as provided below in table 4.17

**Table 4.17: Internal Controls**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you consider the controls that the institution has put in place to safeguard assets and resources to be effective?</td>
<td>Yes</td>
<td>67.1</td>
<td>1.33</td>
<td>0.47</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>32.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**

The findings in table 4.17 of the study indicated that majority of the respondents agreed to statement that the institution had put in place effective control measures to safeguard their assets and resources.

The respondents were further asked whether internal control systems affected financial performance of the institution. The results of this analysis are as provided below in table 4.18

**Table 4.18: Financial Controls and Financial Performance**

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do internal control systems affect financial performance of the institution?</td>
<td>Yes</td>
<td>80.0</td>
<td>1.20</td>
<td>0.40</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**
The findings in table 4.18 of the study indicated that majority of the respondents 80 percent agreed to statement with a mean of 1.20 and a standard deviation of 0.40. Table 4.18 above illustrates the findings of the study.

In addition, the study sought to establish whether the institutions under study had a stable financial performance over the last five years. The results of this analysis are as provided below in table 4.19

Table 4.19: Stable Financial Performance

<table>
<thead>
<tr>
<th>Item</th>
<th>Response</th>
<th>Percentage</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you consider the financial performance of your institution to have been fairly stable over the last five years?</td>
<td>Yes</td>
<td>74.3</td>
<td>1.26</td>
<td>0.44</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>25.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

The findings of the study indicated that majority of the respondents 74.3 percent agreed to statement with a mean of 1.26 and a standard deviation of 0.44. These results were attributed to proper use of resources and expansion of the institutions. However, some of the respondents had dissenting opinion due to embezzlement of funds. Table 4.19 above illustrates the findings of the study.

The study in table 4.20 also sought to establish the mean surplus and budgetary allocations of the institutions under study between 2011 and 2015.

Table 4.20: Financial Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td>1.5m</td>
<td>1.9m</td>
<td>2.3m</td>
<td>2.5m</td>
<td>2.7m</td>
<td>2.18m</td>
<td>0.78</td>
</tr>
<tr>
<td>Budgetary</td>
<td>12m</td>
<td>14m</td>
<td>15m</td>
<td>16m</td>
<td>17m</td>
<td>14.8m</td>
<td>1.12</td>
</tr>
</tbody>
</table>
The study in table 4.20 found out that the mean budgetary allocation to the institutions under study was 14.8 million with a standard deviation of 1.12 while the mean surplus was 2.18 million with a standard deviation of 0.78.

Finally, the study sought to evaluate the effect of assets the financial performance of public institutions of higher learning in Vihiga County, Kenya. The results of this analysis are as provided below in table 4.21

### Table 4.21: Financial Performance

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>T</th>
<th>M</th>
<th>Std. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has enough cash to meet its obligations effectively (as and when they fall due)</td>
<td>%</td>
<td>31.4</td>
<td>35.7</td>
<td>14.3</td>
<td>11.4</td>
<td>7.1</td>
<td>100</td>
<td>3.87</td>
</tr>
<tr>
<td>The fees charged by our institution is appropriate to cover the costs of running the courses</td>
<td>%</td>
<td>44.3</td>
<td>27.1</td>
<td>11.4</td>
<td>14.3</td>
<td>2.9</td>
<td>100</td>
<td>4.14</td>
</tr>
<tr>
<td>All Institutional fees are dully collected</td>
<td>%</td>
<td>34.3</td>
<td>37.1</td>
<td>15.7</td>
<td>8.6</td>
<td>4.3</td>
<td>100</td>
<td>4.06</td>
</tr>
<tr>
<td>Outstanding fees are dully paid in time (before students sit for exams)</td>
<td>%</td>
<td>31.4</td>
<td>37.1</td>
<td>15.7</td>
<td>12.9</td>
<td>2.9</td>
<td>100</td>
<td>3.96</td>
</tr>
<tr>
<td>Our Institution’s accounting system adequately identifies the receipts and expenditure of grant contracts</td>
<td>%</td>
<td>31.4</td>
<td>35.7</td>
<td>14.3</td>
<td>11.4</td>
<td>7.1</td>
<td>100</td>
<td>3.96</td>
</tr>
</tbody>
</table>
The study in table 4.21 found out that majority of the respondents agreed that their institutions had enough cash to meet its obligations effectively, the fees charged by their institutions was appropriate to cover the costs of running of the courses, all institutional fees were dully collected and outstanding fees were dully paid in time (before students sit for exams).

In addition, the results of the study showed that the institutions’ accounting system adequately identified the receipts and expenditure of grant contracts and the management of finances significantly affected financial performance of the institutions. Furthermore, the findings showed that the institutions’ asset base had greatly increased over time. Also, internal control system affected the institutions’ revenue and accountability for the last five years.

### 4.5 Multiple Regression Analysis

Multiple regression analysis was conducted at significance level of 0.05. The results are presented below in the three tables which are accompanied with their respective interpretation.

<table>
<thead>
<tr>
<th>Management of finances</th>
<th>%</th>
<th>44.3</th>
<th>27.1</th>
<th>11.4</th>
<th>14.3</th>
<th>2.9</th>
<th>100</th>
<th>3.97</th>
<th>1.06</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Institution’s asset base has greatly increased over time</td>
<td>%</td>
<td>34.3</td>
<td>37.1</td>
<td>15.7</td>
<td>8.6</td>
<td>4.3</td>
<td>100</td>
<td>3.87</td>
<td>1.09</td>
</tr>
<tr>
<td>Internal control system has affected the institution’s revenue for the last five years</td>
<td>%</td>
<td>31.4</td>
<td>37.1</td>
<td>15.7</td>
<td>12.9</td>
<td>2.9</td>
<td>100</td>
<td>3.93</td>
<td>1.05</td>
</tr>
<tr>
<td>Internal control system has affected the institution’s accountability for the last five years</td>
<td>%</td>
<td>37.1</td>
<td>27.1</td>
<td>20.0</td>
<td>11.4</td>
<td>4.3</td>
<td>100</td>
<td>3.83</td>
<td>1.20</td>
</tr>
</tbody>
</table>

**Source: Research data, 2017**
4.5.1 Model Summary

This shows the summary of the regression analysis as shown in the regression model below. Below are the findings in the table 4.22

Table 4.22: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.533 a</td>
<td>.284</td>
<td>.228</td>
<td>5.7314</td>
</tr>
</tbody>
</table>

Source: Research data, 2017

Table 4.22 above shows a coefficient of correlation (R) of 0.533. This is an indication of a fairly average positive correlation between internal control systems and financial performance of institutions of higher learning in Vihiga County, Kenya. The coefficient of determination indicates that internal control systems explain 28.4% of financial performance of institutions of higher learning in Vihiga County. The adjusted R² however, indicates that internal control systems explain 22.8% of financial performance of institutions of higher learning in Vihiga County whereas 77.2% to be influenced by other factors that was not captured in this study.

The findings of the study differ with the study of Ndiwa (2014) which established the existence of a positive relationship between financial performance and internal control. In addition, the staff of the audit department had a significant effect on the general finance performance of the institution. Ndifon (2014) showed that there existed no statistical significant relationship between financial performance and internal control activities.

4.5.2 Analysis of Variance

The table 4.23 below shows the ANOVA result for the effect of internal control systems on financial performance of public institutions of higher learning in Vihiga County, Kenya
Table 4.23: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>832.655</td>
<td>5</td>
<td>166.531</td>
<td>5.070</td>
<td>.001b</td>
</tr>
<tr>
<td>Residual</td>
<td>2102.331</td>
<td>64</td>
<td>32.849</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2934.986</td>
<td>69</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data, 2017

Table 4.23 above shows the Analysis of Variance (ANOVA). The f-value of the ANOVA was found to be 5.070 while p-value was 0.001 which is < 0.05. These results indicated that the model is statistically significant. Consequently, internal control systems collectively have a significant effect on financial performance of institutions of higher learning in Vihiga County. Hence, internal control systems are good predictors of financial performance.

4.5.3 Regression Coefficients

The researcher conducted regression analysis to determine the relationship between internal control systems and financial performance of public institutions of higher learning in Vihiga County, Kenya. The results of this analysis are as provided below in table 4.24

Table 4.24: Coefficientsa

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
<td>4.440</td>
</tr>
<tr>
<td>Control Activities</td>
<td>.142</td>
<td>.178</td>
<td>.090</td>
<td>.800</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>.013</td>
<td>.227</td>
<td>.007</td>
<td>.059</td>
</tr>
</tbody>
</table>
From the Coefficients Table 4.24 above, the regression model can be derived from the unstandardized coefficients as follows:

\[
Y = 22.671 + 0.142X_1 + 0.013X_2 + 0.264X_3 + 0.002X_4 + 0.668X_5
\]

The results in Table 4.24 indicated that control activities, risk assessment, control environment, information and communication and monitoring have a significant positive effect on financial performance of institutions of higher learning in Vihiga County because their p-values were less than 0.05. The most influential variable was monitoring with a regression coefficient of 0.668 (p-value = 0.003), then control environment with a coefficient of 0.264 (p-value = 0.018), then control activities with a coefficient of 0.142 (p-value = 0.027), then risk assessment with a coefficient of 0.013 (p-value = 0.043), and lastly information and communication with a coefficient of 0.002 (p-value = 0.049). According to this model when all the independent variables values are zero, financial performance of will have a score of 22.671.

These results imply that a unit increase in control activities could result to increase in financial performance by 0.142 all else held constant; a unit increase in risk assessment could result to increase in financial performance by 0.013 all else held constant; a unit increase in control environment could result to increase in financial performance by 0.264 all else held constant; a unit increase in information and communication could result to increase in financial performance by 0.002 all else held constant; and a unit increase in financial monitoring could result to increase in financial performance by 0.668.
4.6 Discussion of Findings

The study sought to determine the effect of control activities on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study findings revealed that the institutions under study had adequate and effective controls activities which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess allocated funds. The findings of the study are in line with the findings of Ndifon (2014), which showed that all the control activities in the institution were spearheaded by the management. In addition, there was separation of duties among the employees in the finance department and there was consistent supervision of work by the superiors. In addition, the school conducted annually external audit of financial statements.

In addition, the institutions had proper checks of every employee’s work as well as adequate corrective action was taken to address weaknesses in audit reports. From regression analysis, a unit increase in control activities could result to increase in financial performance by 0.142. The findings of the study are in line with the findings of Kamau, (2014) which found that proper control environment positively influenced their financial performance, the staffs of the companies under study were well trained on financial management systems and the organizations had security systems to protect their assets and prevent fraud. Regression analysis indicated the existence of a significant positive financial performance and internal control activities.

The study sought to establish the effect of risk assessment on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study found out that the institutions under study had proper risk assessment tools and risk assessment management system because they carried out continuous financial assessment of their organizations coupled with regular, timely and profound audits. The findings of the study were concurrent with the findings of
Ndiwa (2014) that pointed out the existence of internal control strategies and audit department are risk management techniques employed by institutions. Palfi and Muresan (2009) showed teamwork between the management and internal audit department through regular meetings.

The results also indicated that all employees were well trained on risk assessment and risk assessment affected the institution’s revenue for the last five years. From regression analysis, a unit increase in risk assessment could result to increase in financial performance by 0.013. The findings of the study have been concurrent by the findings of Amudo & Inanga (2009) that stated that risk management had a positive significant effect on the financial performance of institutions.

The study sought to evaluate the effect of control environment on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study established public institutions of higher learning in Vihiga County had effective control environment. The number of staff in finance and audit departments was adequate and well trained on accounting and financial management system. The findings of the study differ with the study of Ndiwa (2014) that found out that African Institute of Research and Development Studies had adequate resources but weak financial performance leading to closure of some of them and the audit department did not have adequate staff.

Access to valuable information was equally authorized by senior staff and the institutions had accounting and financial management system safeguarded the institutions’ assets. From regression analysis, a unit increase in control environment could result to increase in financial performance by 0.264. The findings of the study have been buttressed by the findings of Kinyua (2015) that found a positive relationship between financial performance and internal control environment among Nairobi Securities Exchange companies. These findings were seconded by
the findings of Mawanda (2008) that stated that effective implementation of proper control systems may improve the financial performance of an organisation.

The study sought to evaluate the effect of information and communication on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study found out that the institutions under study had effective flow of information and communication channels. The institutions had modern and efficient information and communication technologies to enhance adequate transfer of information, excellent record of transactions and proper accountability for assets. The findings of the study is in agreement with the findings of Amudo & Inanga (2009) which shows that information and communication is a key ingredient in internal control system because it influences the nature of working relations across the different organizational levels.

In addition, the study found that effective flow of information and communication enhanced financial accountability and financial performance of the institutions. From the regression analysis, a unit increase in information and communication could result to increase in financial performance by 0.002. The findings of the study have been concurrent by the findings of Abu Musa (2010) which found out information technology and communication had a positive influence on financial performance of banks.

The study sought to evaluate the effect of monitoring on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study sought to evaluate the effect of financial monitoring on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The study established that the institutions had effective monitoring and evaluation activities. The expenditure of the institutions was properly monitored and audit departments were independent. The findings of the study have been concurrent by the findings
of Theofanis et al., (2011) that stated that effective internal control system requires regular monitoring to ensure effective and efficient system performance over time. Monitoring of internal control systems ensures quality reviews and audits.

In addition, the institutions had proper supervisory activities to enhance accountability and transparency and they held regular management meetings to assess the financial status of the institutions. From regression analysis, a unit increase in financial monitoring could result to increase in financial performance by 0.668. The findings of the study have been concurrent by the findings of Amudo & Inanga (2009) that stated that monitoring of organizational operations increases efficiency of the internal control system. Therefore, monitoring help the management of an organisation to assess whether organizational policies drafted are effectively and efficiently implemented by the staff of the organisation.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings of the study, draws up conclusions and makes recommendations. The conclusions were drawn in addressing the research objectives, which was to determine the effect of internal control systems on financial performance of public institutions of higher learning in Vihiga County, Kenya. The chapter then presents the conclusion from the study, based on the study result and interpretation of the same. Finally the chapter makes recommendation to the management of the institutions, industry regulators and the government, academicians and researchers.

5.2 Summary

The main objective of the study was to establish the effect of internal control systems on financial performance in public institutions of higher learning in Vihiga County. The study specific objectives were: to determine the impact of control activities, risk assessment, control environment, information and communication and monitoring on the financial performance of public institutions of higher learning in Vihiga County, Kenya. The coefficient of correlation was found to be 0.533 implying that there existed a positive correlation between internal control systems and financial performance of institutions of higher learning in Vihiga County. The coefficient of determination (R Square) indicates that 28.4% of financial performance of institutions of higher learning in Vihiga County was influenced by internal control systems. The adjusted R² however, indicates that 22.8% of financial performance of institutions of higher learning in Vihiga County was influenced by internal control systems leaving 77.2% to be influenced by other factors that were not captured in this study.
The first objective sought to answer the following research question; what is the effect of control activities on the financial performance of public institutions of higher learning in Vihiga County, Kenya? The study findings revealed that the institutions under study had adequate and effective controls activities which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess use of allocated funds. In addition, the institutions had proper checks of every employee’s work as well as adequate corrective action being taken to address weaknesses in audit reports. Control activities were found to have a positive significant effect on the financial performance of the public institutions of higher learning under study.

The second objective sought to answer the following research question; what is the effect of risk assessment on the financial performance of public institutions of higher learning in Vihiga County, Kenya? The study found out that the institutions under study had proper risk assessment tools and risk assessment management system because they carried out continuous financial assessment of their organizations coupled with regular, timely and profound audits. The results also indicated that all employees were well trained on risk assessment and risk assessment affected the institutions’ revenue. Risk assessment was found to have a positive significant effect on the financial performance of the public institutions of higher learning under study.

The third objective sought to answer the following research question; what is the effect of control environment on the financial performance of public institutions of higher learning in Vihiga County, Kenya? The study established public institutions of higher learning in Vihiga County had effective control environment. The number of staff in finance and audit departments was adequate and well trained on accounting and financial management system. Access to valuable information was equally authorized by senior staff and the institutions had accounting and financial management system safeguarded the institutions’ assets. Control environment was
found to have a positive significant effect on the financial performance of the public institutions of higher learning under study.

The fourth objective sought to answer the following research question; what is the effect of information and communication on the financial performance of public institutions of higher learning in Vihiga County, Kenya? The study found out that the institutions under study had effective flow of information and communication channels. The institutions had modern and efficient information and communication technologies to enhance adequate transfer of information, excellent record of transactions and proper accountability for assets. In addition, the study found that effective flow of information and communication enhanced financial accountability and financial performance of the institutions.

The fifth objective sought to answer the following research question; what is the effect of monitoring on the financial performance of public institutions of higher learning in Vihiga County, Kenya? The study established that the institutions had effective monitoring and evaluation activities. The expenditure of the institutions was properly monitored and audit departments were independent. In addition, the institutions had proper supervisory activities to enhance accountability and transparency and they held regular management meetings to assess the financial status of the institutions. Financial monitoring was found to have a positive significant effect on the financial performance of the institutions under study.

5.3 Conclusion

The study findings found out that the public institutions of higher learning under study had adequate and effective controls activities, which included regular internal audit reports, adequate segregation of duties in the finance and accounts departments and physical controls to prevent excess use of allocated funds. In addition, the institutions had proper checks of every
employee’s work as well as adequate corrective action was taken to address weaknesses in audit reports. Control activities were found to have a positive significant effect on the financial performance of the institutions under study. The results also indicated that all employees were well trained on risk assessment and risk assessment affected the institutions revenue. Risk assessment was found to have a positive significant effect on the financial performance of the institutions under study.

The study established that public institutions of higher learning in Vihiga County had effective control environment. The number of staff in finance and audit departments was adequate and well trained on accounting and financial management system. Access to valuable information was equally authorised by senior staff and the institutions had accounting and financial management system safeguarded the institutions’ assets. Control environment was found to have a positive significant effect on the financial performance of the institutions under study.

The study found out that the institutions under study had effective flow of information and communication channels. The institutions had modern and efficient information and communication technologies to enhance adequate transfer of information, excellent record of transactions and proper accountability for assets. In addition, the study found that effective flow of information and communication enhanced financial accountability and financial performance of the institutions.

The study established that the institutions had effective monitoring and evaluation activities. The expenditure of the institutions was properly monitored and audit departments were independent. In addition, the institutions had proper supervisory activities to enhance accountability and transparency and they held regular management meetings to assess the financial status of the
institutions. Financial monitoring was found to have a positive significant effect on the financial performance of the institutions under study.

5.4 Recommendations

To the management of public institutions of higher learning, the study recommends regular and timely financial audits to help them identify any loop holes in their financial systems as well as financial performance. The study further recommends to the management of these institutions that assessment of risk associated with institutions-wide objectives be carried out regularly so that the management can know whether or not the institutions objectives will be met.

The study further recommends to the management of these institutions to practice adequate controls in custody and disposal of assets including cash and to reduce the risk of material misstatements in financial reporting in relation to recognition and measurement of assets, liabilities, revenue and cost or insufficient disclosure. This could be achieved by employing competent staff, putting in place an audit committee to supervise the work of the audit staff. The study further recommends that mandatory authorization and approval of transaction by relevant officers be made mandatory. This is to ensure that there is no misappropriation of the institution resources. Presence of an effective internal audit is recommended as it enhances performance.

The study further recommends that periodic reports be made to top management of the institution and industry regulators, thus Ministry of Education. This is to ensure that errors are corrected in time. The institutions information and communication channels should complete, correct and timely financial reporting by making all relevant internal process instructions and policies accessible to all the employees concerned since communication facilitates regular updates and briefing of documents regarding changes in accounting policies, reporting and disclosure requirements which influences performance in the long run.
The study further recommends the institution to put in place effective internal audit as it facilitates monitoring of efficiency of operations and the company’s process for financial reporting be reviewed annually by the management. This forms a basis for evaluating the internal management system and internal steering documents to ensure that they cover all significant areas related to financial reporting. The study further recommends the institution to mitigate the challenges in its internal control systems by ensuring there is an effective audit committee, the council decisions be made collectively and not be controlled by different stakeholders and policies and procedures be put in place. This provides that decisions are made with appropriate approvals.

To the academicians, the study recommends further research on the effects of internal controls on the financial performance of different institutions (banking, educational and commercial, among others) in the country so as to generate adequate empirical literature on the topic. The researcher can focus on different independent variables of the study.

In practice, the study recommends that all the variables under study are effectively practiced by institutions in order to safeguards their institutions assets as well as improve their financial performance. In areas where the employees will have inadequate skills and knowledge, the study recommends aggressive employee training.

5.5 Limitations of the Study

The study faced a few limitations as captured hereunder. Some respondents were unwilling to respond to questionnaires provided for fear of victimization. The researcher assured respondents of utmost confidentiality of the information provided. The study population comprised of very busy employees which made it hard for the respondents to fill in the questionnaires in time due to their busy schedule. The researcher therefore, collected data when the respondents had closed
the business of the day or over lunch break. This led to a slight delay in obtaining the required responses for data analysis in time. Finally, research findings may not reflect the status of the whole country and therefore the findings have been generalized to other areas with caution.

5.6 Contribution to knowledge

This study contributes to the body of knowledge both in methodology, theory and practice. In order to derive more valuable and broader conclusions, the methodology adopted in this research involved administering questionnaires across a wider range of public institutions of higher learning in Vihiga County in order to increase the generalizability of the results. As lack of strong internal control system leads to poor financial performance among public institutions of higher learning, this research is of scholarly interest as it has further un-covered factors that lead to enhanced internal control systems. This is likewise true for the testing of a possible relation between internal control systems and financial performance. The study has established that the main drivers of financial performance are control activities, risk assessment, control environment, information and communication and monitoring.

5.7 Suggestion for Further Study

This study has reviewed the effect of internal control on financial performance of public institutions of higher learning in Vihiga County, Kenya. To this end therefore a further study should be carried out to establish the effect of internal control systems on financial performance of other public institutions of higher learning in Kenya. This study has reviewed the effect of internal control on financial performance of public institutions of higher learning in Vihiga County, Kenya with a small sample involving only a few staff in Accounts and finance, administration and operations department in the respective institutions. A bigger sample of respondents should be used to facilitate a more informative conclusion.
REFERENCES

ACCA Advanced Audit and Assurance (2009), Kaplan Publishing

ACCA- Audit and Assurance services text book (2010), Kaplan Publishing


Internal Control—Integrated Framework: *Executive Summary. The Committee of Sponsoring Organizations of the Treadway Commission.*


Sebbowa B, (2009), *The role of internal audit function in Organizations*.


Questionnaire

I am a postgraduate student at Kenyatta University pursuing a Master of Business Administration degree (Finance Option). In partial fulfillment of the requirement for the award of the above mentioned degree, I am required to carry out and submit an academic research on the “Internal control systems and financial performance in public institutions of higher learning in Vihiga County, Kenya.”

Kindly assist me by filling in the questionnaire to the best of your knowledge. I would like to assure you that this research is purely for academic purposes. Your response will be treated with extreme confidentiality. Thank you for your time and cooperation.

Yours faithfully,

Mr. Andrew Govedi Kisanyanya

D53/OL/CTY/24934/2014

SECTION A: General Information

1. Gender  Male ( )  Female ( )

2. For how long have been working in this Institution?
   Less than 5 years ( )  5 – 10 years ( )  11 – 15 years ( )
   16 – 20 years ( )  Over 20 years ( )

3. a) Do you consider the controls that the institution has put in place to safeguard assets and resources to be effective?  Yes ( ) No ( )
   b) Please briefly explain your answer in question 3 (a) above.

   ..........................................................................................................................................................

4. a) Do you consider the financial performance of your institution to have been fairly stable over the last five years? Yes ( ) No ( )
b) Please briefly explain your answer in question 4 (a) above.

........................................................................................................................................
........................................................................................................................................

SECTION B: Control Activities

5. a) Does the institution have adequate and effective controls activities? Yes ( ) No ( )
b) Please briefly explain your answer in question 5 (a) above.

........................................................................................................................................
........................................................................................................................................

6. a) Do control activities affect financial performance of the institution? Yes ( ) No ( )
b) Please briefly explain your answer in question 6 (a) above.

........................................................................................................................................
........................................................................................................................................

c) Please state your level of agreement to the statements regarding control activities in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are regular internal audit reports generated in the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>There is adequate segregation of duties in the finance and accounts departments</td>
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<td></td>
<td></td>
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<tr>
<td>There are physical controls to prevent excess allocated funds</td>
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</tr>
<tr>
<td>There is proper checks of every employee’s work by the others</td>
<td></td>
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</tr>
<tr>
<td>There is adequate corrective action taken to address weaknesses in audit reports</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>


d) On average, how much (in Kenya Shillings) does your institution spend annually on control activities?

0-10,000 ( ) 10,001-30,000 ( ) 30,001-50,000 ( )
50,001-100,000 ( ) More than 100,000 ( )

SECTION C: Risk Assessment

7. a) Does the institution have a proper risk assessment program? Yes ( ) No ( )
b) Please briefly explain your answer in question 7 (a) above.

66
8. a) Does risk assessment affect financial performance of the institution? Yes ( ) No ( )

b) Please briefly explain your answer in question 8 (a) above.


c) Please state your level of agreement to the statements regarding risk assessment in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>The institution has effective risk assessment tools</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The institution has adequate and effective risk management system</td>
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<td></td>
<td></td>
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<tr>
<td>All employees are well trained on risk assessment</td>
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<tr>
<td>Risk assessment has affected the institution’s revenue for the last five years</td>
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</tbody>
</table>

d) On average, how much (in Kenya shillings) does your institution spend annually on risk assessment?
0-10,000 ( ) 10,001-30,000 ( ) 30,001-50,000 ( ) 50,001-100,000 ( ) More than 100,000 ( )

**Section D: Control Environment**

9. a) Does the institution have a conducive control environment? Yes ( ) No ( )

b) Please briefly explain your answer in question 9 (a) above.


c) Does control environment affect financial performance of the institution? Yes ( ) No ( )

b) Please briefly explain your answer in question 10 (a) above.

67
c) Please state your level of agreement to the statements regarding control environment in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has effective control environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The institution finance and audit departments are adequately staffed</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Staff are well trained on accounting and financial management system</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Senior staff authorises access to valuable information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The institution accounting and financial management system safeguards the institutions’ assets</td>
<td></td>
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</tbody>
</table>

d) On average, how much (in Kenya shillings) does your institution spend annually on financial control environment?
0-10,000 ( ) 10,001-30,000 ( ) 30,001-50,000 ( ) 50,001-100,000 ( ) More than 100,000 ( )

**Section E: Information and Communication**

11. a) Does the institution have effective flow of information and communication? Yes ( ) No ( )
b) Please briefly explain your answer in question 11 (a) above.

…………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………

…………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………

12. a) Does information and communication affect financial performance of the institution? Yes ( ) No ( )
b) Please briefly explain your answer in question 12 (a) above.

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…………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………
c) Please state your level of agreement to the statements regarding information and communication in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has effective information and communication channels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our institution has invested on modern and efficient information and communication technologies (computers, internet and other systems)</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Our institution has adequate transfer of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our institution has excellent record of transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our institution has proper accountability for assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective flow of information and communication enhances financial accountability</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

d) On average, how much (in Kenya shillings) does your institution spend annually on modern information and communication technologies?

0-10,000 ( )  10,001-30,000 ( )  30,001-50,000 ( )  50,001-100,000 ( )  More than 100,000 ( )

Section F: Monitoring

13. a) Does the institution have effective monitoring and evaluation activities? Yes ( )  No ( )

b) Please briefly explain your answer in question 13 (a) above.

…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………

14. a) Does financial monitoring affect financial performance of the institution? Yes ( )  No ( )

b) Please briefly explain your answer in question 14 (a) above.

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…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
c) Please state your level of agreement to the statements regarding monitoring in your institution where, 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>The expenditure of the institution are properly monitored</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The audit department of the institution is independent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The institution has proper supervisory activities to enhance accountability and transparency</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>There are regular management meetings to assess the financial status of the university</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

d) On average, how much (in Kenya shillings) does your institution spend annually on financial monitoring programs?

0-10,000 ( )
10,001-30,000 ( )
30,001-50,000 ( )
50,000-100,001 ( )
More than 100,000 ( )

Section G: Financial Performance

15. a) Do you think the financial performance of the university has been stable in the last 5 years?
   b) Please briefly explain your answer in question 8 (a) above.

16. a) Do internal control systems affect financial performance of the institution? Yes ( ) No ( )
   b) Please briefly explain your answer in question 8 (a) above.

c) Kindly state the institutions surplus and budgetary allocation between 2011 and 2015.

<table>
<thead>
<tr>
<th>NAME OF INSTITUTION</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
d) Please state your level of agreement to the statements regarding financial performance in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our institution has enough cash to meet its obligations effectively (as and when they fall due)</td>
<td></td>
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</tr>
<tr>
<td>The fees charged by our institution is appropriate to cover the costs of running the courses</td>
<td></td>
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<tr>
<td>All Institutional fees are dully collected</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding fees are dully paid in time (before students sit for exams)</td>
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<td></td>
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</tr>
<tr>
<td>Our Institution’s accounting system adequately identifies the receipts and expenditure of grant contracts</td>
<td></td>
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</tr>
<tr>
<td>Management of finances significantly affects financial performance of the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The Institution’s asset base has greatly increased over time</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Internal control system has affected the institution’s revenue for the last five years</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Internal control system has affected the institution’s accountability for the last five years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THANK YOUR FOR FILLING THE QUESTIONNAIRE
APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent

REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (MBA) student at Kenyatta University. I am required to submit as part of my coursework assessment, a research project report on "INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF PUBLIC INSTITUTIONS OF HIGHER LEARNING IN VIHIGA COUNTY, KENYA." I am kindly requesting you to assist me in this study by filling the attached questionnaire to the best of your ability as it applies to you.

The information provided will be used solely for academic purposes, and all responses will remain confidential.

Thank you very much for your time.

Govedi Andrew Kisanyanya

Reg. No. D53/OL/CTY/24934/14
Appendix II – Letter of transmittal

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

Internal Memo

FROM: Dean, Graduate School
TO: Andrew Govedi Kisanyanya
     C/o Accounting and Finance Dept.

DATE: 11th September, 2017
REF: D53/OL/CTY/24934/2014

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 6th September, 2017 approved your Research Project Proposal for the M.B.A Degree Entitled, “Internal control systems and financial performance of public institutions of higher learning in Vihiga County, Kenya”.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Job Omagwa
   C/o Department of Accounting and Finance,
   Kenyatta University
Ref: No. NACOSTI/P/17/95397/20029

Govedi Andrew Kisanyanya
Kenyatta University
P.O Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Internal control systems and financial performance of public institutions of higher learning in Vihiga County, Kenya” I am pleased to inform you that you have been authorized to undertake research in Vihiga County for the period ending 14th November, 2018.

You are advised to report to the County Commissioner and the County Director of Education, Vihiga County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

Godfrey P. Kalerwa
GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Vihiga County.

The County Director of Education
Vihiga County.
Appendix III – List of Public Institutions of higher learning in Vihiga County

<table>
<thead>
<tr>
<th>College Name</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaimosi Friends University College</td>
<td>Kaimosi</td>
</tr>
<tr>
<td>Kaimosi Teachers Training College</td>
<td>Kaimosi</td>
</tr>
<tr>
<td>Eregi Teachers Training College</td>
<td>Chavakali</td>
</tr>
<tr>
<td>Kaimosi Friends College of Science &amp; Tech</td>
<td>Kaimosi</td>
</tr>
</tbody>
</table>

Source: Research data, 2017