Effect of Internal Control Systems on Financial Performance of Distribution Companies in Kenya

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Abstract
There is a general consensus that internal Control systems are important management tools in financial management. There has been controversy as to why there is a declining profitability trends among Small and Medium scale Enterprises despite government's commitment to availability of funds. Economic Survey 2017 statistics indicate a tremendous growth in profitability of small and medium scale Enterprises in Kenya over the last ten years; constituting about 96 per cent of all business enterprises in the country; yet 71% of the business start-ups do not operate beyond their third anniversary. Empirical studies on internal control systems yielded mixed results and focused on different firms rather than SMEs. However, little is known on the effect of internal control systems on the financial performance of distribution companies. The main objective was to analyze the effects of internal control systems on financial performance of small and medium distribution companies. The specific objectives of the study were to: determine the effect of control activities; find out the effect of risk assessment; establish the effect of information and communication on financial performance Moonbluez Enterprises Limited. The study was anchored on Agency and Reliability theory, and a conceptual framework showing the interaction between internal control systems as the independent variable and financial performance as the dependent variable. Correlational and case study design was adopted targeting all the 38 employees while employing census survey technique. Primary data was collected using questionnaires and secondary data was collected from relevant books, journals and periodicals. Reliability and validity of the instrument was checked using test-retest technique and expert reviews and Pilot study was conducted of the 4 employees of Moonbluez enterprises. Descriptive statistics such as mean and standard deviation and inferential statistics such as Pearson's correlation and multiple regression analysis was employed to analyze the data. Presentation was done by the use of tables and charts. The results of the study may help identify gaps within the systems of internal control at Moonbluez Enterprises Limited and in the distribution industry at large especially among small and medium sized entities. Further the study may also add to the existing knowledge bank regarding book keeping, internal controls and financial performance among small and medium sized enterprises in Kenya. Scholars and researchers who would like to carry out more studies on internal Controls and financial performance in small and medium sized entities may find the study beneficial.
Keywords: Financial Performance, Internal control, Risk Assessment, Control activities
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1.0 INTRODUCTION
This section contains the background information of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, definition of terms in the study and conceptual framework.

1.1 Background of the study
Financial performance refers to the monetary measure of an organization's operations and achievements. In most cases it is always measured in terms of the profits made or losses incurred by a firm over a given trading period. Accordingly, the theory of the firm argues that the sustainability of each and every commercial organization is largely dependent on their level of profitability. In addition, profits are an important contributor to the economic development of a country through taxation and employment and thus the need for business enterprises to be profitable, sound and stable at all times. This is indeed true for the small and micro enterprises (SMEs) which to date remain the drivers of several economies across the globe. According to OECD (2014), SMEs are known to contribute to over 55% of GDP and over 65% of total employment in high income countries. It further noted that they also account for over 60% of GDP and over 70% of total employment in low income countries.

In spite of the aforementioned, the performances of the small and micro enterprises vary across countries. In 2014 and 2015, SMEs in almost all member states in the European Union (EU) experienced good growth in value added ranging from 3.8% in 2014 and 5.7% in 2015 (Muller, Devnani, Julius, Gagliardi, & Marzocchi, 2016). However, and according to the findings of the Small Business Project's (SBP) 2015 SME Growth Index, more than one in every five SMEs in South Africa reported a decrease in turnover in 2014 whereas 20% reported no growth in turnover for the same period.

Locally, 71% of the SMEs in Kenya close shop in their third anniversaries due to shortage of operating funds among other factors (KNBS, 2017). Moreover, there level of contribution to the country's GDP is paltry 3%. However, this can be remedied by ensuring that these enterprises have effective internal control systems. It is on this basis that this study was undertaken on internal control systems and financial performance of the SMEs. The internal control system was conceptualized through control activities, risk assessment and information and communication in line with the COSO (2013), integrated framework for internal control. On the other hand, financial performance was conceptualized in terms of the level of profitability of the SMEs.

On the same note a number of empirical studies have been conducted on control activities and financial performance. However, most of these studies are mixed at best on their findings. Alawattegama (2018) found an insignificant relationship between control activities and financial performance of a sample of forty five banking and finance companies listed on the Colombo Stock Exchange. This is similar to the findings of Ejoh and Ejom (2014). On the other hand, Rosman, Shafie, Sanusi, Johari, and Omar (2016), Muraleetharan (2013), Nyakundi, Nyamita, and Tinega (2014) and Magu and Kibati (2016) established a significant positive relationship between control activities and financial performance. Thus, from this, it is not possible to accurately ascertain the effect of internal control activities on the financial performance of SMEs.

In addition, empirical studies on risk assessment and financial performance are not also conclusive in their findings. Momanyi and Njiru (2016)financial risk management practices comprising of; risk identification, risk monitoring, risk assessment and risk mitigation, had a positive correlation to the performance of SACCOs in Nakuru, Kenya. In a similar fashion, Bett and Memba (2017), Rosman et al. (2016), Kirogo, Ngahu, and Wagoki (2014) and Nyakundi et al. (2014) found a significant positive relationship between risk assessment and financial performance. However, Ghani and Rosli Mahmood (2015) and Alawattegama (2018) found an insignificant relationship between risk assessment and financial performance of banks and micro finance institutions respectively. Thus, need for more empirical studies to reconcile these mixed findings from previous studies on risk assessment and financial performance.

Empirical studies also exist on quality of information, effective communication and financial performance. Ironkwe and Otti (2016) concluded that the quality of accounting information in terms of relevance to users contributes significantly to the performance of banks in Nigeria. Further, Ali, Omar, and Bakar (2016) revealed that service quality, information quality and system quality are the significant accounting information systems success factors for increasing organizational performance. This was confirmed by Bett and Memba (2017) and Nyakundi et al. (2014). On the contrary, Alawattegama (2018)established that information & communication indicate an insignificant positive impact on firm performance of forty five banking and finance companies listed on the Colombo Stock Exchange. This therefore calls for more empirical research on the effect of information and communication on financial performance and thus the basis of this research.

Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers. Financial assets are also used to define SMEs. In the European Union, a new definition came into force on 1 January 2005 applying to all Community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively (OECD, 2005).

Accountability needs to be accurate and timely so as to aid decision making. It should be noted that International Financial Reporting Standards (IFRSs) emphasize timely production of financial reports. Ideally end of year financial statements should be produced within three months following the end of the period to which the financial statements relate. Or rather monthly statements should be for instance reported within ten working days after month end based on the company policy. At Moonbluez Enterprises Limited, especially in its head office in Kisumu this has never been the case (Moonbluez Enterprises Ltd internal memo, May 2017). Financial statements, inventory reports and all other reports are not produced or if produced have often not been presented to the directors for decision making. Besides, book keeping is not up to the required standards. This leaves the researcher with the question to establish the tool the directors have been using to arrive at their business organizations or if the persons in charge of accounting are trained and competent professionals and how the internal controls functions to leave such gaps unfilled. The study further intended to find out if the latter challenge in regard to book keeping applies across all SMEs or it is just at the chosen organization only.

Moonbluz Enterprises Limited is a distribution Company is registered and domiciled in Kenya. The business is located in Kisumu County with subsidiaries in; Luanda town, Sondu, Oyugis town-opposite Kenya Women Finance Trust, with other two branches in the same town. The study was conducted in the organization's headquarters and its subsidiaries. The business is licensed under Companies Act, and operates as general company. It offers but not limited to distribution of beverages and supply of Building and construction materials. According to the company profile, Moonbluz Enterprises Limited currently is managed by professionally qualified individuals with wide experience in their respective professional disciplines. Additionally, the firm is currently operating large beverage distribution stores in various town of Kisumu, Luanda, Sondu and Oyugis. The firm provides quality services and products which enables maximum utility. In its history Moonbluz Enterprises Limited commenced as sole proprietorship under the name Monny Traders in 2007 and in the process of growth and expansion faced a lot of challenges which led to its poor financial performance (Moonbluz Enterprises Limited profile, 2016). This might be attributed to a number of factors including its internal control system. It is on this basis that therefore that this study intended to analyze the effect of internal control systems on financial performance of Moonbluz enterprises limited.

1.2 Statement of the Problem

The performances of the small and micro enterprises vary across countries. In 2014 and 2015, SMEs in almost all member states in the European Union (EU) experienced good growth in value added ranging from 3.8% in 2014 and 5.7% in 2015. However, and in South Africa more than one in every five SMEs reported a decrease in turnover in 2014 whereas 20% reported no growth in turnover for the same period. Locally, 71% of the SMEs in Kenya close shop in their third anniversaries due to shortage of operating funds among other factors. Moreover, there level of contribution to the country's GDP is paltry 3%. There is a general consensus that internal Control systems are used as management tools in financial management. In view of the foregoing virtually all organizations have established Internal Control measures in order to enhance their financial reporting systems check on their efficiency and effectiveness of operations as well as enhance adherence to the prescribed rules and regulations. However, this has not worked out for all the institutions as several instances of allegations of misappropriations of funds and frauds are everywhere due to weaknesses in ICS. From empirical studies, scholars have had contradicting opinion on the effect of internal control systems on financial performance of SMEs. Due to differing opinions, little is known on whether the effect of internal control systems such as control activities, risk assessment and information and communication on financial performance of SMEs is positive or negative. It was the intent of this study therefore to analyze the effect of internal control systems on financial performance of Small and Medium Enterprises, with specific reference to Moonbluz enterprises Limited.

1.3 Objectives of the Study

1.3.1 Main Objective

The study's main objective was to analyze the effects of internal control systems on financial performance of small and medium distribution companies: a case of Moonbluz Enterprises Limited.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

i. To determine the effect of control activities on financial performance of Moonbluz Enterprises Limited;
ii. To find out the effect of risk assessment on financial performance of Moonbluz Enterprises Limited; and
iii. To establish extent to which information and communication affect financial performance of Moonbluz Enterprises Limited

1.4 Research Hypothesis

The study adopted the following research hypothesis;

i. H_{01}: There is no statistically significant effect of control activities on financial performance of Moonbluz Enterprises Limited
ii. H_{02}: There is no statistically significant effect of risk assessment on financial performance of Moonbluez Enterprises Limited
iii. H_{03}: There is no statistically significant effect of information and communication on financial performance of Moonbluez Enterprises Limited

1.5 Justification of the Study

The results of the study may help identify gaps within the systems of internal control at Moonbluez Enterprises Limited and in the distribution industry at large especially among small and medium sized entities. It may also provide invaluable benefits to management and those charged with governance may emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of Moonbluez Enterprises Limited objectives. This implies that the study has specifically highlighted the significance of proper book keeping and organization's policy implementation and follow ups to ensure the established internal controls are functioning as intended. The study also add to the existing knowledge bank regarding book keeping, internal controls and financial performance among small and medium sized enterprises in Kenya. The development partners/suppliers who are usually interested in managing and controlling their finances with less leakages may have an understanding of a wide variety of factors that hinder the growth of small and medium sized organizations, hence sustainability. Scholars and researchers who would like to carry out more studies on internal Controls and financial performance in small and medium sized entities may find the study beneficial.

1.6 Scope of the study

The study was conducted in Kenya, Kisumu city at Moonbluez Enterprises Limited headquarters, and its subsidiaries in Oyugis town Homabay County, Sondu and Luanda town branches. The main respondents were all 38 staff of Moonbluez Enterprises Limited. The study focused on the effect of internal control systems on financial performance of SME distribution companies with a specific reference to Moonbluez Enterprises Limited. The company under study is a distribution company distributing Coca-Cola products and wines and spirits located in Kisumu, Luanda, Sondu and Oyugis towns and supplies building and construction materials. The main concepts of this study were the effects of; control activities, risk assessment and information and communication on financial performance. This study was conducted within a period of five months.

1.7 Conceptual framework.

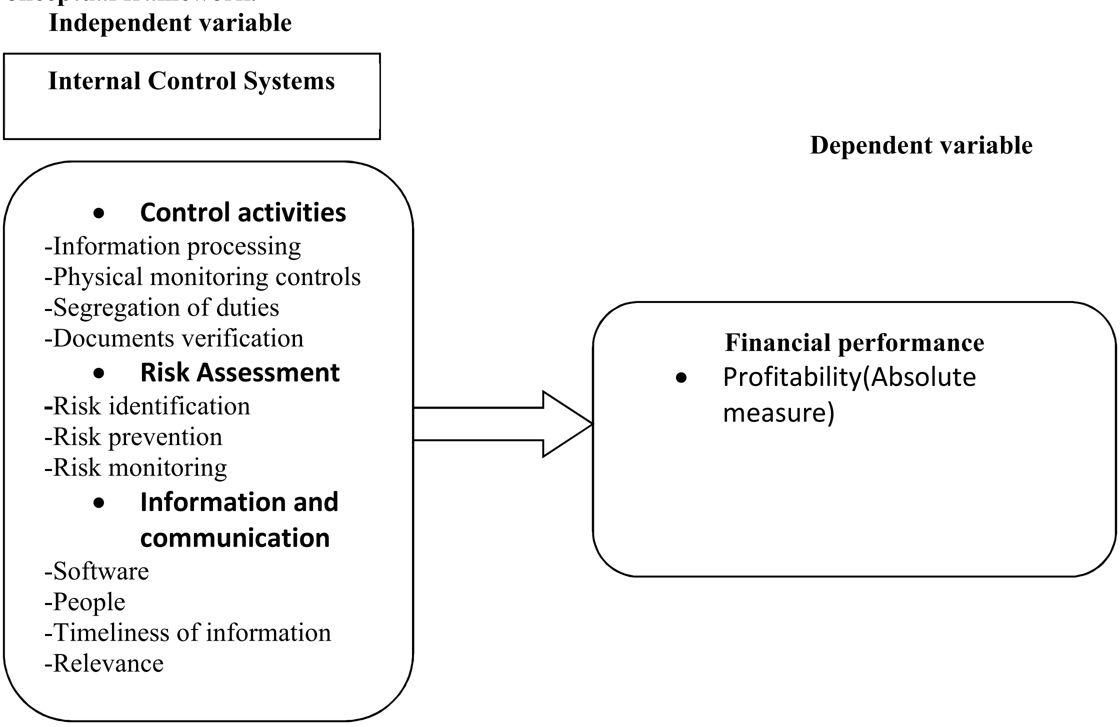

Figure 1: Conceptual framework for the relationship between internal control systems and financial performance
Source: Adapted from (COSO, 2013)

From Figure 1 above conceptual framework proposes a direct relationship between the independent variables; control activities, risk assessment and information and communication and financial performance of SME distribution companies.

Control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's response to reduce risks. In this study the control activities was conceptualized through the Policies, Procedures, Performance Reviews, Information Processing, Physical Controls, documents verification and Segregation of Duties. Risk assessment is a systematic process that seeks to identify potential hazards and identify their implications before they occur. This was conceptualized in the study by risk identification, prevention and risk monitoring with specific reference to measures adopted by Small and Medium entities. Information and communication was measured using Timeliness, Relevance, Reliability and Form of Information and communication tools and components of an ideal information system. The dependent variable for the study was the financial performance of commercial banks that was measured using the Profitability.

2.0 LITERATURE REVIEW

This chapter discusses the literature related to the effects of internal control systems on financial performance.

2.1 Theoretical Literature

2.1.1 Agency Theory

The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick, independently and roughly concurrently. Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar. Indeed, the approaches can be seen as complementary in their uses of similar concepts under different assumptions. In short, Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships: Behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams to see the incentives as well as the institutional structures (Mitnick, 1973).

Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the *principal* hires an *agent* to do the work, or to perform a task the principal is unable or unwilling to do. The theory describes internal control systems as necessary structures to maintain contracts, and through internal control systems, it is possible to exercise control which minimizes opportunistic behavior of agents.

When shareholders (principal/business owners) and the manager (agent) are separate individuals it creates some problems for shareholders (Jensen &Meckling, 1976). As both individuals want to maximize utility, the agent might adapt a managerial behavior that is not in the interest of the principal (Jensen &Meckling, 1976). Shankman (1999) argues that appropriate governance mechanisms between the principal and agent would minimize the conflicting interests them.

Agency theory also assumes that in some situations, an agent is utilizing resources of a principal. Therefore, although the agent is the decision-maker, they are incurring little to no risk because all losses will be the burden of the principal. This is most commonly seen when shareholders contribute financial support to an entity that corporate executives use at their discretion. The agent may have a different risk tolerance than the principal because of the uneven distribution of risk. However, this is one of the greatest weaknesses of this theory because it is ignoring the fact that Even though the agent is tasked with the job of taking care of the assets, the agents till must be held accountable since the special ownership concept applies.

This Theory was chosen for this study simply because "Internal control is one of many mechanisms used in business to address the agency problem" (Jensen, 2003) and again" studies have shown that internal control reduces agency costs". It implies as per the current study that the directors of Moonbluez Enterprises are the principals, while the manager and the other employees are agents who are entrusted with various roles of managing resources which in one way or another translates to financial performance. As per the agency theory, the manager and other employees should only serve the interest of the directors by ensuring that all other employees below him obeys only the set financial policies such that the interest of the principals are fully exploited. However, as per the Moonbluez directors in their internal memo, May 2017), this is not the case. The present study therefore intended to explicitly understand the cause of this non-adherence and the agency conflict.

2.1.2Reliability Theory

Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilov & Gavrilova, 2001). The theory has been used as a model by insurance and life insurance companies in computing profitable rates to charge their customers. The theory stipulates that internal control systems are primarily set up for assessment and control of risks. The theory further argues that weak internal control systems result in more substantive work and hence greater cost (Kinney, 2000). According to Gavrilov and Gavrilova (2001), the determination of the "weakness" of any internal control system is primarily judgmental. Upon the formulation of the process and system reliability estimates, comparison with financial data from the organization's past performances may provide a more solid basis for judgment of the impact of an internal control system on the firm's income risk. Messier and Austen (2000) state that one of the primary advantages of the reliability theory is its close relationship to the needs of an organization regarding understanding the internal control system and control risk assessment. The reliability theory is based on the notion that an implemented system should be able to meet its expected function. The reliability theory is relevant to this study based on the second objective of the study which focuses on the effect of risk assessment on financial performance of firms; in this case, the SME distribution companies with specific reference to Moonbluez enterprises Limited.

2.1.3 Concepts of the Study

Control activities

COSO (2013) states that control activities are the actions established by the policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. It further states that control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. It also notes that it may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations and business performance reviews. It further notes that segregation of duties is typically built into the selection and development of control activities.

Control activities are the policies and procedures that help ensure that management directives are carried out, for example, that necessary actions are taken to address risks that threaten the achievement of the entity's objectives. Control activities, whether within IT or manual system, have various objectives and are applied at various organizational and functional levels. Generally, control activities that are relevant to an audit may be categorized as policies and procedures that pertain to the following: performance reviews; These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data, operating or financial to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance, for instance at Moonbluez Limited, the accounts and administrative manager review reports from branches, and notice the variances for adjustments as affirmed by International standards of Auditing (International Standard on Auditing 315, 2009).

Whittington and Pany (2001) mention Control activities as one of the component of internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end). This implies that findings by Whittington and Pany (2001) if well implemented, will definitely lead to proper internal controls and thus organizational success in the long run.

Risk assessment

COSO (2013) noted that risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieve the entity's objectives, forming a basis for determining how risks should be managed. It also noted that management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives. It further noted that the framework recognizes that many organizations are taking risk-based approach to internal control and that the risk assessment includes processes for risk identification, risk analysis and risk response; that risk tolerance and acceptable level of variation in performance should be considered in the assessment of acceptable risk levels; and the discussion of risk severity includes velocity and persistence in addition to impact and likelihood. It further states that a system of internal control over financial reporting is designed and implemented to prevent or detect, in a timely manner, a material omission from or a misstatement of the financial statement due to error or fraud.

An entity's risk assessment process is its process for identifying and responding to business risks and the results thereof. For financial reporting purposes, the entity's risk assessment process includes how management identifies risks relevant to the preparation of financial statements that give a true and fair view (or are presented fairly, in all material respects) in accordance with the entity's applicable financial reporting framework, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to manage them. For example, the entity's risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements (KASNEB, 2011).

Information and communication

According to COSO (2013), information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. It enables personnel to understand internal control responsibilities and their importance to the achievement of objectives.

According to International Standard on Auditing 315 (2009), Understanding the entity and its environment and assessing the risks of material misstatement lists five internal control component namely; Control environment, risk assessment, information and communication, control activities and monitoring of controls. It further notes that Auditors need to obtain an understanding of the information system, including the related business processes, relevant to financial reporting including areas such; classes of transactions, procedures within both IT and manual systems, accounting records, how information systems capture events and conditions and financial reporting process. The standard also requires Auditors to obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including communications between management and those charged with governance and external communications, such as those with regulatory authorities.

It includes the related business processes, relevant to financial reporting and communication. An information system consists of infrastructure (physical and hardware components), software, people, procedures, and data. Infrastructure and software have less significance, in systems that are exclusively or primarily manual. Many information and communications make extensive use of information technology (IT). IT as defined by Williams et al (1999) is technology that merges computing with high speed communications links carrying data, sound and video. Accordingly, an information system encompasses methods and records that: Identify and record all valid transactions. Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting. Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements. Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period. Present properly the transactions and related disclosures in the financial statements. Williams et al (1999) stresses that protection of information system entails; control of access, audit controls that track servers and programs, and people controls (check resumes to confirm training and separate employee functions, input controls, and output controls).

Risks relevant to reliable financial reporting also relate to specific events or transactions. Shah (2007) asserts that one would incur more risk if he decides to invest in shares rather than Government bonds. However he asserts that risk and expected return move in tandem; the greater the risk the greater the expected return. Chandra (2002) note that Risk is everywhere and surrounds our personal activities or professional lives. Though it is difficult to eliminate completely, one can minimize risk by employing risk assessment techniques in his personal and professional capacity. Richie (1989) indicates that data protection is a must, appropriate security measure, shall be taken against unauthorized access or alteration, disclosure or destruction of personal data against accidental loss or destruction. Management may be aware of risks related to these objectives without the use of a formal process but through direct personal involvement with employees and outside parties (ISA UK and Ireland 315, COSO: 2005).

Financial Performance

Mawanda (2008), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. They assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process. Hitt, et al (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris or overvaluation of managerial capability in the acquisition process.

Brennan and Solomon (2008) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of 30 corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Donald and Delno (2009) mention accounting based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999). Hitt, et al (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process. Dixon et al (1990) found out that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

In this study, internal controls was interpreted as "A process that guides an organization towards achieving its objectives." These objectives include operational efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulations." Financial performance is considered in terms of like profitability (using absolute measure).

2.2 Empirical Literature review

2.2.1 Control Activities and Financial Performance

Alawattegama (2018) explored on the impact of the adoption of enterprise risk management (ERM) practices on firm performance. A sample of forty five banking and finance companies listed on the Colombo Stock Exchange (CSE) was selected for this study and uses both primary and secondary data for the empirical analysis. The extent of adoption of ERM practices was assessed by using the ERM integrated framework of committee of sponsoring organization (COSO) of the Treadway Commission of USA. Return on equity (ROE) is used as a proxy to measure the firm performance and uses multivariate regression analysis to assess the impact of key ERM functions on firm performance. This study found event identification, risk assessment, risk response and information and communication indicate an insignificant positive impact on firm performance. On the other hand, empirical evidence reveals that objective setting; event identification, control activities and monitoring of ERM functions have an insignificant negative impact on performance.

Rosman et al. (2016) examined the relationships between internal control including control environment, control activities, risk assessment, monitoring and budgetary participation, and performance effectiveness of NPOs. The sample consists of non-profit organizations (NPOs) established in Malaysia and registered with either the Registrar of Society or Company Commission of Malaysia. A total of 96 questionnaires out of 150 distributed questionnaires were returned. Based on the result of the multiple regression analysis, there are significant relationship between control environment, control activities, risk assessment, monitoring and financial performance. In addition, the result also shows significant relationship between control environment, risk assessment, budgetary participation and non-financial performance.

Ejoh and Ejom (2014) evaluated the relationship between internal control activities and financial performance in Tertiary Institutions in Nigeria. Data was collected using questionnaires and interview guide as well as review of documents and articles. The method of analysis employed was survey design while the stratified sampling procedure was adopted in administering the questionnaires. The study result further shows that there is no significant relationship between internal control activities and financial performance of Cross River State College of Education.

Muraleetharan (2013)undertook a study on the relationship between control activities and performance of the organizations in Jaffna District, Sri Lanka. The study is based on hundred and twenty employees in the organizations. The study finds control activities and organizations performance are statistically significant in determining performance. Perhaps most importantly, the study finds positive relationship between control activities and performance. Adequate supervision with a clear and up to date supply of information should be there. There must be maintenance of adequate recording and duplicating systems and also must be an efficient staff control with written directions as to responsibilities and duties of both management and staff.

Nyakundi et al. (2014) studied the effect of internal control systems on financial performance among SMEs in Kisumu city, Kenya. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial statements of the sampled enterprises. Data was analyzed using descriptive statistics as well as inferential statistics. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scale Enterprises.

Magu and Kibati (2016) examined the influence of internal control system on the financial performance of Kenya Farmers' Association (KFA) Ltd. The internal control systems were reflected by two variables; control environment and control activities. Target population was 78 managers in this explanatory research. Census design was adopted. Data were analyzed using inferential and descriptive statistics. The results revealed that the staffs were not trained to implement the accounting and financial management systems; and that the security systems do not identify and safeguard organizational assets. The results further showed that there is a positive relationship between internal control systems and financial performance of KFA Ltd. The control environment and control activities contributed to 61.3% of the variation in financial performance. Study found that management of KFA Ltd is not committed to the internal control systems actively.

In review of the above literature, a number of empirical studies including Alawattegama (2018), Ejoh and Ejom (2014), Rosman et al. (2016), Muraleetharan (2013), Nyakundi et al. (2014) and Magu and Kibati (2016) exist on control activities and financial performance. Nonetheless, most of these studies are not conclusive in their findings. Alawattegama (2018) found an insignificant relationship between control activities and financial performance on a sample of forty five banking and finance companies listed on the Colombo Stock Exchange. This is similar to the findings of Ejoh and Ejom (2014). On the other hand, Rosman et al. (2016), Muraleetharan (2013), Nyakundi et al. (2014) and Magu and Kibati (2016) established a significant positive relationship between control activities and financial performance. Thus, and from this, it is not possible to accurately ascertain the effect of internal control activities on the financial performance of SMEs.

2.2.2 Risk Assessment Process and Financial Performance

Momanyi and Njiru (2016)investigate the effect financial risk management on performance of Deposit taking SACCOs in Nakuru East Sub-County. The study adopted a descriptive research design with the population comprising all the 15 SACCOs in which 3 employees were targeted making a total number of 45 respondents. A questionnaire with closed ended questions was used to collect primary data. Secondary data was collected from the financial reports from each SACCO for the period ranging from 2010-2014. The study found that all the SACCOs had highly adopted financial risk management practices to manage financial risk and as a result the financial risk management practices comprising of; risk identification, risk monitoring, risk assessment and risk mitigation, had a positive correlation to the performance of SACCOs in Nakuru.

Bett and Memba (2017) assessed the effects of internal control systems on the financial performance of Menengai Oil Company, Kenya. The specific objectives of the study were to determine the effect of control environment on the financial performance of Menengai Company, determine the influence of risk assessment on the financial performance of Menengai Company and to establish the influence of information systems on financial performance of Menengai Company. The study adopted a survey research design. A census of 189 respondents was used in the study. The data collected were first be tabulated, then analyzed by use of descriptive statistics and inferential statistics. The results were presented in charts, tables and graphs. ANOVA tests confirmed that control environment, risk assessment and information have a significant influence on financial performance.

Alawattegama (2018) explored on the impact of the adoption of enterprise risk management (ERM) practices on firm performance. A sample of forty five banking and finance companies listed on the Colombo Stock Exchange (CSE) was selected for this study and uses both primary and secondary data for the empirical analysis. The extent of adoption of ERM practices was assessed by using the ERM integrated framework of committee of sponsoring organization (COSO) of the Treadway Commission of USA. Return on equity (ROE) is used as a proxy to measure the firm performance and uses multivariate regression analysis to assess the impact of key ERM functions on firm performance. This study found event identification, risk assessment, risk response and information and communication indicate an insignificant positive impact on firm performance. On the other hand, empirical evidence reveals that objective setting; event identification, control activities and monitoring of ERM functions have an insignificant negative impact on performance.

Rosman et al. (2016) examined the relationships between internal control including control environment, control activities, risk assessment, monitoring and budgetary participation, and performance effectiveness of NPOs. The sample consists of non-profit organizations (NPOs) established in Malaysia and registered with either the Registrar of Society or Company Commission of Malaysia. A total of 96 questionnaires out of 150 distributed questionnaires were returned. Based on the result of the multiple regression analysis, there are significant relationship between control environment, control activities, risk assessment, monitoring and financial performance. In addition, the result also shows significant relationship between control environment, risk assessment, budgetary participation and non-financial performance.

Ghani and Rosli Mahmood (2015) investigated the state of risk management practices (RMPs) implemented among the microfinance providers in Malaysia and its relationship with the financial performance. This study employed the measures available in the existing literature to measure the variables and is modified to match with the respondents. A total number of 1355 survey questionnaires were distributed to the branch managers through mail and 190 usable responses were received from the respondents. The result reveals that only three dimensions of RMPs have significant relationship with the performance of financial institutions namely risk identification, risk monitoring and credit risk analysis. While, there is no relationship between risk management understanding and risk assessment and analysis and performance of financial institutions.

Kirogo et al. (2014) establish the effect of risk assessment on financial performance in insurance firms in Nakuru town. Descriptive survey was employed. The target population comprised of 52 management employees in 27 insurance firms in Nakuru town. Census was employed to elect the sample size in the study. Data was collected using a structured questionnaire with questions on a 5-point Likert scale. The study concludes that risk based auditing through risk assessment positively affected the financial performance of insurance companies in Nakuru Town. Risk assessment enables the insurance companies to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability and enhanced financial performance of insurance companies. The study has found a strong association between risk based auditing and financial performance of insurance companies.

Nyakundi et al. (2014) studied the effect of internal control systems on financial performance among SMEs in Kisumu city, Kenya. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial statements of the sampled enterprises. Data was analyzed using descriptive statistics as well as inferential statistics. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scale Enterprises. The investigation recommends training on the significance of internal controls among proprietors of Small and Medium scale Enterprises.

The above empirical studies relate to the effect of risk assessment on financial performance. However, their findings are mixed. On one hand, Momanyi and Njiru (2016) found that financial risk management practices comprising of; risk identification, risk monitoring, risk assessment and risk mitigation, had a positive correlation to the performance of SACCOs in Nakuru, Kenya. In a similar fashion, Bett and Memba (2017), Rosman et al. (2016), Kirogo et al. (2014) and Nyakundi et al. (2014) found a significant positive relationship between risk assessment and financial performance. On the other hand, Ghani and Rosli Mahmood (2015) and Alawattegama (2018) found an insignificant relationship between risk assessment and financial performance of banks and micro finance institutions respectively. Thus, there is need for more empirical studies to reconcile these mixed findings from previous studies on risk assessment and financial performance.

2.2.3 Information and communication and Financial Performance

Bett and Memba (2017) assessed the effects of internal control systems on the financial performance of Menengai Oil Company, Kenya. The specific objectives of the study were to determine the effect of control environment on the financial performance of Menengai Company, determine the influence of risk assessment on the financial performance of Menengai Company and to establish the influence of information systems on financial performance of Menengai Company. The study adopted a survey research design. A census of 189 respondents was used in the study. The data collected were first tabulated, then analyzed by use of descriptive statistics and inferential statistics. The results were presented in charts, tables and graphs. ANOVA tests confirmed that control environment, risk assessment and information systems have a significant influence on financial performance.

Alawattegama (2018) explored on the impact of the adoption of enterprise risk management (ERM) practices on firm performance. A sample of forty five banking and finance companies listed on the Colombo Stock Exchange (CSE) was selected for this study and uses both primary and secondary data for the empirical analysis. The extent of adoption of ERM practices was assessed by using the ERM integrated framework of committee of sponsoring organization (COSO) of the Treadway Commission of USA. Return on equity (ROE) is used as a proxy to measure the firm performance and uses multivariate regression analysis to assess the impact of key ERM functions on firm performance. This study found event identification, risk assessment, risk response and information and communication indicate an insignificant positive impact on firm performance. On the other hand, empirical evidence reveals that objective setting; event identification, control activities and monitoring of ERM functions have an insignificant negative impact on performance.

Ironkwe and Otti (2016) investigated the relationship between accounting information and the financial performance of banks in Nigeria. Sample of 91 deposit banks were used for the study and primary data were gathered via survey method with the aid of structured questionnaire. The test of hypothesis and other breakdown of data collected was analyzed with the use of Pearson Product Moment Correlation. From the analyses conducted, the findings showed that relevance of accounting information was statistically significant in determining the profitability and quality of service delivery of banks in Nigeria. On the basis of the findings, it was concluded that: The quality of accounting information in terms of relevance to users contributes significantly to the performance of bank.

Ali et al. (2016) investigated the effect of Accounting Information System (AIS) on organizational performance and the moderating effect of organizational culture in the relationship between AIS success factors and organizational performance. Data were collected with a structured questionnaire survey from 273 respondents in Jordanian banking sector. The collected data were analyzed with PLS SEM technique. The findings revealed that service quality, information quality and system quality are the significant AIS success factors for increasing organizational performance. This study also evidenced that organizational culture helps increase performance by interacting with information quality, data quality and system quality. It can be inferred from this study that organizations involved in banking sectors can increase their performance by adopting and implementing AIS success factors along with practicing favourable organizational culture.

Abubakar (2014)examined the impact of marketing communication on the financial performance of banks with specific reference to First Bank of Nigeria PLC. Advertising and promotion were chosen because following consolidation, banks have advertised more and various forms of promotion are being implemented. The bank's financial performance was measured by Return on Assets (ROA). The study used regression analysis and T-test to examine the impact of marketing communication methods on financial performance in First Bank PLC. Findings indicate that there is a positive significant relationship between marketing communication methods and financial performance as measured by ROA.

Nyakundi et al. (2014) studied the effect of internal control systems on financial performance among SMEs in Kisumu city, Kenya. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial statements of the sampled enterprises. Data was analyzed using descriptive statistics as well as inferential statistics. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scale Enterprises. The investigation recommends training on the significance of internal controls among proprietors of Small and Medium scale Enterprises.

Empirical studies above exist on quality of information, effective communication and financial performance. However, their findings are no clear on the effect of both quality of information and effective communication on firm performance. In their findings, Ironkwe and Otti (2016)concluded that the quality of accounting information contributes significantly to the performance of banks in Nigeria. This is similar to the finding by Ali et al. (2016), Bett and Memba (2017) and Nyakundi et al. (2014). On the contrary, Alawattegama (2018) established that information and communication have an insignificant positive impact on firm performance. Hence, there is need for more empirical research on the same and thus the basis of this research.

3.0 RESEARCH METHODOLOGY

This section sets out various stages and phases that was followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore, in this section the research identified the procedures and techniques that was used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, study area, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.1 Research Design

Research design refers to the way the study is designed, that is, the method used to carry out a research (Nyororo, 2006). This research problem was studied through the use of a correlation and case study research design. Correlation design is used to determine whether and to what degree a relationship exists between quantifiable variables. This reason justify why this study used a correlation research design. According to Yin (2014), a case study is an empirical inquiry that investigates a contemporary phenomenon (the case) in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. This investigation makes a comprehensive examination of a single subject group or phenomenon facilitating generalizations of the findings to all private distribution companies and their internal controls thus its justification for this study.

3.2 Study Area

The research was conducted in Kisumu city and Sondu which is situated in Kisumu County, Oyugis situated in Homabay County and Luanda situated in Vihiga County. The last three being Sondu, Oyugis and Luanda being subsidiaries of Moonbluez Enterprises Limited. They lie on latitude 0° 5' 30.1258" S and longitude 34° 46' 4.6445" E (Kisumu), latitude 0° 23' 24.0270" S and longitude 35° 0' 50.5166" E (Sondu), latitude 0° 30' 28.4267" S and longitude 34° 44' 17.3983" E (Oyugis) and latitude0° 1' 26.4025" S and longitude 34° 35' 14.8013" E (Luanda) (Statements in degrees, minutes and seconds respectively).

3.3 Target Population

Target population is a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. A population is a well-defined set of people, services, elements, events, and group of things or households that are being investigated (Mugenda and Mugenda, 2003). The population of interest for the study consisted of all 38 staff members of Moonbluez Enterprises Limited justified by the recommendation of Committee of Sponsoring Organizations (2013) framework that everyone in the organization has a responsibility for internal control. The choice this organization is justified for this study because Moonbluez has always adopted internal control systems in its various forms and hence in a position to respond to the questions of this study and also due to its integrated operations in terms of the products being distributed including three business lines being wines and spirits, Coca-cola products and building materials. It was therefore considered appropriate for providing a focal point for the study of internal control system vis-à-vis financial performance of SME distribution companies.

3.4 Sampling Design

Sampling refers to the procedure a researcher uses to gather people, places or things to study (Kombo *et al,* 2006). The study employed census survey technique that is from a total population of 38 respondents the researcher considered all of them which was in accordance with the recommendation by Oso and Onen (2009) that with a small target population, the whole target could be used for the study. Out this of this, four among the sample formed part of the pilot study remaining with 34 respondents.

3.5 Data Collection Instrument

Both quantitative and qualitative data was used. Primary data was collected through self-administered questionnaire. According to Cooper and Schindler (2013), a self-administered questionnaire is the only way to elicit self-reports on people’s opinion, attitudes, beliefs and values. The choice of this tool of data collection was guided by the time available and the objectives of the study. Questionnaire provides a high degree of data standardization and adoption of generalized information amongst any population (Axinn and Pearce, 2006). Semi structured questionnaire was used to collect data. The closed ended questions was used for easy coding and analysis while the open ended questions was used to elicit more information from respondents to complete any missing links. Secondary data was obtained from relevant books, journals and periodicals.

3.6 Data Collection Procedure

The researcher before proceeding to collect data sought permission which was granted with an introductory letter from School of Graduate studies to the persons involved in the study. Data was collected primarily using Semi structured questionnaire and secondary data through the relevant books, journals and periodicals.

3.6.1 Reliability Test

According to Nachmias and Nachmias (1996), reliability is concerned with consistency, dependability or stability of a test. The study measured the reliability of the questionnaire to determine its consistency in testing what they are intended to measure. The test-retest coefficient was obtained to establish reliability of the research instrument as established by Fishers' 0.7 coefficient. According Kathuri and Pals (1993), 10 % of the sample was considered appropriate for testing reliability. And to achieve this, 4 employees of Moonbluz enterprises limited were used to test reliability and was not used again as part of the study population, instead the remaining 34 respondents was used as the study population. The pilot test for reliability was done to improve their validity and reliability coefficient to at least the threshold value of 0.7 and therefore items with validity and reliability coefficients at least 0.7 was accepted as valid and reliable in research (Kathuri and Pals,1993). Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher designed the questionnaires through an elaborate procedure.

3.6.2 Validity

According to Oluwatayo (2012) validity is the degree to which a test or measurement instrument actually measures what it purports to measure or how well a test or a measuring instrument fulfils its function. The study incorporated face validity – researchers' subjective assessments of the presentation and relevance of the measuring instrument as to whether the items in the instrument appear to be relevant, reasonable, unambiguous and clear; content validity – the extent to which the instrument of measurement shows evidence of fairly and comprehensive coverage of the domain of items that it purports to cover that is whether the measuring instrument had been constructed adequately or its items had fair sample of the total potential. To establish validity under this, the instrument was given to two experts (supervisors in the School of Business and Economics of Maseno University) to evaluate the relevance of each item in the instrument to the objectives. The experts rated each item on the scale: Very relevant (4), Quite relevant (3), Somewhat relevant (2) and not relevant (1). Validity index was determined using Content Validity Index (C.V.I) C.V.I= Items rated 3 or 4 by both experts divided by the number of items in the questionnaire. This is symbolized as $n_{3/4}/N$ (Oso & Onen, 2005).

3.7 Data Analysis

This study used descriptive statistics to analyze quantitative data. Descriptive statistics involves the collection, organization and analysis of all data relating to some population or sample under study. Data was checked for completeness, accuracy, errors in responses, omissions and other inconsistencies. The data was then coded using numerals in order to put them in limited number of categories. The data was entered into the Statistical Package for Social Science (version 21.0) as it is more user friendly and most appropriate for analysis of Management related attitudinal responses (Martin and Acuna, 2002) and then presented in the report in the form of tables and charts. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency. Cooper and Schindler (2013) noted that the use of percentages is important for two reasons; first they simplify data by reducing all the numbers to range between 0 and 100. Second, they translate the data into standard form with a base of 100 for relative comparisons. The mean score for each attribute was calculated and the standard deviation used to interpret the respondents deviation from the mean. The results was presented on frequency distribution tables, graphs, pie charts and bar charts. Here the interest was focused on frequency of occurrence across attributes of measures. The data was also analyzed using inferential statistics in terms of correlation and regression analyses. Regression Analysis was used to find the effect of internal control systems control activities, risk assessment and information and communications on financial performance of SME distribution companies. According to Campbell and Campbell (2008) regression is a statistical technique that determines the linear relationship between two or more variables thus shows how variation in one variable co-occurs with variations in another.

3.7.1 Model specification

The study was guided by the following Model Regression Model.
Source: Kothari (2004)
The linear regression model:
$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$
Where: -

Y = Dependent Variable (Profitability-Financial Performance)
X_1 = Control activities
X_2 = Risk assessment
X_3 = Information and communication
β_0 =constant.
β_1, β_2, β_3, = Regression Standardized Co-efficient of Independent variables
ε = error term,

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Response Return Rate

The study targeted 34 respondents from which 28 filled in and returned the questionnaires making a response rate of 82.35%. Based on the results, the response rate was excellent in line with the findings of Mugenda and Mugenda (2003).

4.2 Demographic characteristics of the Sample

The study sought to establish the background of the respondents in the study in terms of their gender, age, academic qualifications and time spent in Moonbluz Enterprise. The results are presented as follows:

Table 4.2.1: Respondents' Gender

Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	16	57.1	57.1	57.1
	Female	12	42.9	42.9	100.0
	Total	**28**	**100.0**	**100.0**	

Source: Field Data (2018)

Table 4.2.1 shows that the 57.1 % of the respondents are male while 42.9% were female. This implies that majority of the staff in Moonbluz Enterprise are of female gender.

Table 4.2.2: Respondents' Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-35 years	26	92.9	92.9	92.9
	46-56 years	2	7.1	7.1	100.0
	Total	**28**	**100.0**	**100.0**	

Source: Field Data (2018)

Table 4.2.2 indicates that majority (92.9%) of the respondents are in the age bracket of between 18-35 years. This means that most of the staff were in their useful age.

Table 4.2.3: Academic Qualifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary Education	2	7.1	7.1	7.1
	Tertiary	26	92.9	92.9	100.0
	Total	**28**	**100.0**	**100.0**	

Source: Field Data (2018)

The results in Table 4.2.3 show that 7.1% have attained secondary education while 92.9% have tertiary qualifications. This implies that a majority of the respondents were able to comprehend the questions being asked making the information obtained from them reliable.

Table 4.2.4: Time Spent in Moonbluz Enterprises as an Employee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	18	64.3	64.3	64.3
	More than 5 years	10	35.7	35.7	100.0
	Total	**28**	**100.0**	**100.0**	

Source: Field Data (2018)

The results in Table 4.2.4 show that majority of the respondents have worked in Moonbluz Enterprises for a period of between 1-5 years hence, they are well conversant with the organization's internal control system.

4.3 Control Activities

Table 4.3.1 depicts the results on the respondents' rating of the extent to which a number of control activities affect the financial performance of the Moonbluz enterprise. The respondents' views were measured on a 5 point likert scale where, 1= a very great extent (VGE), 2= great extent (GE), 3= Moderate extent (ME), 4= Little extent (LE) and 5 = no extent (NE). The results from the collected responses were analyzed based on frequencies, percentages, means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. And results presented as shown in table 4.3.1 below,

Table 4.3.1: Control Activities

Statements	VGE	GE	ME	LE	NE	Mean	Std. Dev
Periodic Managerial Reviews	3(10.7%)	18(64.3%)	3(10.7%)	2(7.1%)	2(7.1%)	2.36	1.026
Review of prior period performance	1(3.6%)	21(75.0%)	2(7.1%)	2(7.1%)	2(7.1%)	2.39	0.956
Physical controls(necessary to provide security over both records and other assets)	10(35.7%)	2(7.1%)	9(32.1%)	5(17.9%)	2(7.1%)	2.54	1.347
Segregation of duties among the employees	5(17.9%)	5(17.9%)	5(17.9%)	9(32.1%)	4(14.3%)	3.07	1.359
Monitoring of operations	2(7.1%)	7(25.0%)	10(35.7%)	6(21.4%)	3(10.7%)	3.04	1.105
Overall mean and standard deviation						2.68	1.159

Source: Field Data (2018)

From table 4.3.1 above, the study findings indicated that Periodic managerial review was a key aspect of control activities that improved financial performance. This is shown by 18(64.3%) of the respondents who noted that it improves financial performance to a great extent. The study findings also revealed that review of prior period performance was also key to improving financial performance, shown by 21(75.0%) of the respondents who noted that it improves financial performance to a great extent with a mean of 2.39. In addition to that, Physical controls (necessary to provide security over both records and other assets) also improved on financial performance, shown by 10(35.7%) of the respondents. A mean of 2.54 supports the respondents' idea. Furthermore, the means of 3.07 and 3.04 were of the opinion that segregation of duties and monitoring of operations were key aspect of control activities that improved financial performance.

From the study findings, it was clear that the control activities in place at Moonbluz enterprises improved performance to a great extent. And because of the existence of control activities through performance reviews, segregation of duties, physical controls and monitoring of operations, the enterprise has experienced improvements in their financial performance. It can thus be truly stated that financial performance is dependent on the control activities put in place by the enterprise.

These study findings concur with findings of Magu and Kibati (2016) who contended that the control activities and control environment is highly interrelated to the financial performance of Kenya Farmers Association Limited. The study findings also agree with the findings by Nyakundi et al. (2014) whose study specifically revealed that a significant change in financial performance is linked to control activities as one of internal control systems.

4.4 Risk Assessment

Table 4.4.1 shows the respondents' rating of the extent to which they agree with a number of statements on risk assessment practices in Moonbluz enterprise. The respondents' views were measured on a 5 point likert scale where, 1= a very great extent (VGE), 2= great extent (GE), 3= Moderate extent (ME), 4= Little extent (LE) and 5 = no extent (NE). The results from the collected responses were analyzed based on frequencies, percentages, means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. And results presented as shown in table 4.3.1 below

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Table 4.4.1: Risk Assessment

Statements	VGE	GE	ME	LE	NE	Mean	Std. Dev
Management investigate to understand unrecorded transactions	2(7.1%)	4(14.3%)	11(39.3%)	6(21.4%)	5(17.9%)	3.29	1.150
Actions taken on persons who alter accounting documents	1(3.6%)	20(71.4%)	3(10.7%)	3(10.7%)	1(3.6%)	2.39	0.875
There are risks provisions for managers and supervisors who implement particular strategies without success	1(3.6%)	1(3.6%)	1(3.6%)	1(3.6%)	24(85.7%)	4.64	0.989
Willingness to embrace modern financial transactions systems irrespective of price	1(3.6%)	2(7.1%)	21(75.0%)	2(7.1%)	2(7.1%)	3.07	0.766
Management performs documents verification which minimizes risk	1(3.6%)	2(7.1%)	23(82.1%)	1(3.6%)	1(3.6%)	2.96	0.637
Overall mean and standard deviation						3.27	0.884

Source: Field Data (2018)

From table 4.4.1 above, the study findings indicated that the results show that the management of Moonbluz enterprise do often conduct investigation to understand if there could be unrecorded transactions to a Moderate extent. This is shown by a majority 11(39.3%) of the respondents who noted that it improves financial performance to a moderate extent. The study findings also revealed that actions taken on persons who alter accounting documents was also key to improving financial performance, shown by 20(71.4%) of the respondents who noted that it improves financial performance to a great extent with a mean of 2.39. In addition to that, management made risks provisions for managers and supervisors who implement particular strategies without to no extent, shown by 24(85.7%) of the respondents. A mean of 4.64 supports the respondents' idea. Furthermore, the means of 3.07 and 2.96 were of the opinion that management showed willingness to embrace modern financial transactions systems irrespective of price and performs documents verification which minimizes risk. Though a majority were of the opinion that management showed willingness to embrace modern financial transactions systems to a moderate extent.

From the study findings, risk assessment measures in place at Moonbluz enterprises to ensure that potential activities and personnel causing risks are identified and prevented or reduced. Existence of such measures through investigation of unrecorded transactions, strict disciplinary actions against perpetrators of alteration, risk provisions and document verifications, the enterprise has affected firm's financial performance to a little extent. It is therefore true to state that financial performance is dependent on the risk assessment measure put in place by the enterprise.

These study findings were in tandem with findings of Bett and Memba (2017) who contended that the risk assessment had a significant influence on financial performance. The study findings also agree with the findings by Momanyi and Njiru (2016) whose study revealed that risk assessment had positive contribution to performance.

4.5 Information and Communication (IC)

Table 4.5.1 shows the respondents' rating of the extent to which they agree with a number of statements on IC in Moonbluz enterprise. The respondents' views were measured on a 5 point likert scale where, 1= a very great extent (VGE), 2= great extent (GE), 3= Moderate extent (ME), 4= Little extent (LE) and 5 = no extent (NE). The results from the collected responses were analyzed based on frequencies, percentages, means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. And results presented as shown in table 4.5.1 below,

Table 4.5.1: Information Communication

Statements	VGE	GE	ME	LE	NE	Mean	Std. Dev
Information and communication describe transactions on a timely basis sufficiently	1(3.6%)	2(7.1%)	4(14.3%)	13(46.4%)	8(28.6%)	3.89	1.031
Information and communication determine helps determine when transaction occurred	1(3.6%)	9(32.1%)	16(57.1%)	1(3.6%)	1(3.6%)	2.71	0.763
Information and communication measure transaction and enable proper recording	1(3.6%)	2(7.1%)	5(17.9%)	5(17.9%)	15(53.6%)	4.11	1.166
Information and communication enables management identification of right coordinators	1(3.6%)	1(3.6%)	3(10.7%)	7(25.0%)	16(57.1%)	4.29	1.049
Information and communication provide communications for policy evaluations	1(3.6%)	1(3.6%)	2(7.1%)	11(39.3%)	13(46.4%)	4.21	0.995
Information and communication facilitates recording summary and interpretation	1(3.6%)	18(64.3%)	5(17.9%)	2(7.1%)	2(7.1%)	2.50	0.962
Overall mean and standard deviation						3.62	1.193

Source: Field Data (2018)

From the Table 4.5.1 below, the results show that the Moonbluz enterprise has information and communication that; describe on a timely basis the transactions in sufficient detail to permit proper classification for financial reporting (mean = 3.89; std. dev. = 1.031), determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period (mean = 2.71; std. dev. = 0.763), measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements (mean = 4.11; std. dev. = 1.166), management uses to identify individuals who are responsible for coordinating the various activities within the firm to ensure appropriate communication on internal controls (mean = 4.29; std. dev. = 1.049), management uses to identify individuals who are responsible for coordinating the various activities within the firm to ensure appropriate communication on internal controls (mean = 4.21; std. dev. = 0.995) and Information and communication facilitates recording summary and interpretation (mean = 2.50; std. dev. = 0.962).

Generally from the study findings revealed that information and communication is an important element of internal control system. Existence of such information and communication systems held in providing timely based transactions, timelines for recording transactions, communication on internal controls and facilitating recording, classification and interpretation of transactions, the enterprise has benefited through improved financial performance. It is therefore true to state that financial performance is dependent on the information and communication systems put in place by the enterprise.

The study findings also agree with the findings by Ironkwe and Otti (2016) whose study findings revealed that relevance and quality of accounting information contributes to performance.

4.6 Financial Performance

Table 4.6.1 depicts the results on the respondents' rating of the extent to which they agreed with a number of statements on financial performance of Moonbluz. The respondents views were measured on a five point likert scale where SA=strongly agree, A=agree, U=undecided, D=disagree and SD=strongly disagree. The results were analyzed using percentages, frequencies, means and standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. And results presented as shown in table 4.6.1 below,

From the Table 4.6.1 below, the results show that the Moonbluz enterprise has enough funds to pay its creditors/ Suppliers (mean = 3.64; std. dev. = 0.951), pays its staff monthly (mean = 2.25; std. dev. = 0.752), has a good credit policy that makes collection from debtors prompt (mean = 3.68; std. dev. = 0.819), has enough funds to pay taxes to the government (mean = 2.61; std. dev. = 1.166) and charges prices that is appropriate to push sales up (mean = 2.00; std. dev. = 1.018). In addition, the respondents agree that organization's asset base has greatly improved over time (mean = 2.36; std. dev. = 1.162) including having better ways of managing its costs and other overheads (mean = 3.82; std. dev. = 1.056). They also agree that the organization always evaluate the staffs' performance based on their contribution to sales (mean = 3.96; std. dev. = 0.999).

Table 4.6.1: Financial Performance

Statements	VGE	GE	ME	LE	NE	Mean	Std. Dev
Organization has funds to pay creditors	1(3.6%)	1(3.6%)	10(35.7%)	11(39.3%)	5(17.9%)	3.64	0.951
Organization has funds to pay staffs monthly	1(3.6%)	22(78.6%)	3(10.7%)	1(3.6%)	1(3.6%)	2.25	0.752
Organization has good credit policy	1(3.6%)	1(3.6%)	6(21.4%)	18(64.3%)	2(7.1%)	3.68	0.819
organization has enough funds to pay taxes to government	3(10.7%)	14(50.0%)	5(17.9%)	3(10.7%)	3(10.7%)	2.61	1.166
Prices charged are appropriate to enable markup	9(32.1%)	14(50.0%)	2(7.1%)	2(7.1%)	1(3.6%)	2.00	1.018
Organization asset base has greatly improved	6(21.4%)	13(46.4%)	4(14.3%)	3(10.7%)	2(7.1%)	2.36	1.162
Organization has better ways of managing its cost	2(7.1%)	1(3.6%)	3(10.7%)	16(57.1%)	6(21.4%)	3.82	1.056
Organization evaluates performance based on contribution	1(3.6%)	2(7.1%)	2(7.1%)	15(53.6%)	8(28.6%)	3.96	0.999
Overall mean and standard deviation						3.04	0.990

Source: Field Data (2018)

4.7 Correlation Coefficient

Table 4.7.1: Coefficient of Correlation

		Control activities	Risk assessment	Information and communication	Financial performance
Control activities	Pearson Correlation	1	.826**	.633**	-.919**
	Sig. (2-tailed)		.000	.000	.000
	N	28	28	28	28
Risk assessment	Pearson Correlation	.826**	1	.576**	-.759**
	Sig. (2-tailed)	.000		.001	.000
	N	28	28	28	28
Information and communication	Pearson Correlation	.633**	.576**	1	-.759**
	Sig. (2-tailed)	.000	.001		.000
	N	28	28	28	28
Financial performance	Pearson Correlation	-.919**	-.759**	-.759**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	28	28	28	28

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2018)

From the Pearson correlation table 4.7.1, it shows that there is a strongly and positive correlation between control activities and risk assessment and significant (r=0.826 p=0.000, p< 0.01). It also shows that control activities is strongly and positively correlated to information and communication and is also significant (0.633, p=0.000, p< 0.01). Control activities is strongly and negatively related to financial performance and is significant (-0.919, p=0.000, p< 0.01).

Further, the table indicates that there is a positive relationship between risk assessment and Information and communication which is also significant (0.576, p= 0.001, p< 0.01) implying that risk assessment is related to Information and communication, and vice versa. The analysis as well reveals that there is a negative relationship between risk assessment and financial performance which is significant (-0.759, p= 0.000, P<0.01)

Additionally, the table indicates that there is a strong negative relationship between Information and communication and financial performance which is also significant (-0.759, p= 0.000, P<0.01)

4.8 Analysis of Variance (ANOVA) and F-Test Results

Table 4.8.1: ANOVA[a] Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.481	3	1.827	70.078	.000[b]
	Residual	.626	24	.026		
	Total	**6.107**	**27**			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Information and communication, Risk assessment, Control activities
Source: Field Data (2018)
Using the hypotheses;
H_10: $\mu_1 = \mu_2 = \mu_3$
H_1A: $\mu_1 \neq \mu_2 \neq \mu_3$

Table 4.8.1 above shows the Analysis of Variance (ANOVA). The F-value of the ANOVA analysis was found to be 70.078 while p-value was 0.000 which is < 0.05. The results therefore indicated that the model is statistically significant hence, the internal control systems collectively have a significant effect on financial performance of Moonbluz enterprise. Thus, internal control systems are good predictors of financial performance and thus null hypotheses can be rejected.

4.9 Model Summary

Table 4.9.1 below presents the regression model summary for the relationship between Moonbluz enterprise' financial performance and the predictor variables (control activities, risk assessment and information and communication systems). According to the findings, the R-coefficient is 0.947 which shows that the predictor variables have a high degree of positive association with the financial performance. The coefficient of determination (R-Square) shows that the predictor variables used in the study can be relied on to explains 89.8% of the variability in the firm's financial performance. Thus, based on the findings, it is clear that holding other factors constant, control activities, risk assessment, and information and communication contribute to 89.8% growth in the firm's financial performance.

Table: 4.9.1: Model Summary Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.947[a]	.898	.885	.16147	.898	70.078	3	24	.000

a. Predictors: (Constant), Information and communication, Risk assessment, Control activities
Source: Field Data (2018)

Multiple Regression Analysis
4.10 Multiple Regression Analysis and Coefficient

Table 4.10.1 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
1	(Constant)	3.048	.106		28.648	.000	2.828	3.267
	Control activities	-.796	.127	-.770	-6.250	.000	-1.059	-.533
	Risk assessment	.057	.133	.050	.428	.672	-.217	.331
	Information and communication	-.341	.097	-.300	-3.527	.002	-.541	-.142

a. Dependent Variable: Financial performance

The model Y = $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ is used. Where by:
Y= dependent variable (Financial performance)
$\beta_{0=}$ Population's regression constant
$\beta_{i=}$ (i= 0,1,2,3,…..n) = are the population's regression coefficients for each independent variable x_i
ε= The model error variable

Assumption; - the multiple regression model is based on the assumption that for any specific value of the independent variable, the value of the dependent variable are normally distributed and that the variances for the dependent variable are the same for each of the independent variable.

Substituting into the equation;

Financial performance= 3.048 – 0.796*Control activities + 0.057*Risk assessment - 0.341*Information and communication

Rearranged beta values gives;

Modified table

1.	0.796	**Best predictor**
2.	0.341	
3.	0.057	

Rearranging the values according to the absolute magnitude (ignoring signs) using the Beta values under the unstandardized coefficients in the coefficient table 4.10.1 gives the best predictor for financial performance among other predictors, that is, rearranged beginning with the highest value. It is hence true to conclude from the table that the best predictor for enhancing financial performance of distribution companies is the Control activities (B= 0.796).

The first objective of the study sought to establish the effect of control activities on financial performance of Moonbluz enterprise. Table 4.10.1 shows that the coefficient of control activities is -0.796, with a p-value=0.000. This indicates that a unit decrease in control activities leads to an increase of 0.796 in the financial performance of Moonbluz enterprise holding other factors constant. Moreover, the effect is significant since the p-value is less than the 0.05 level of significance leading to the rejection of the null hypothesis. Hence, the alternative hypothesis was instead accepted. The results conform to those of Rosman et al. (2016), Muraleetharan (2013), Nyakundi et al. (2014) and Magu and Kibati (2016). However, the findings contradict those of Alawattegama (2018) who found an insignificant relationship between control activities and financial performance on a sample of forty five banking and finance companies listed on the Colombo Stock Exchange.

Based on objective two of the study sought to determine the effect of risk assessment on financial performance of Moonbluz enterprise. 4.10.1 revealed that the coefficient of risk assessment is 0.057, with a p-value=0.672. This indicates that a unit increase in risk assessment leads to an increase of 0.057 in the financial performance of Moonbluz enterprise holding other factors constant. Moreover, the effect is insignificant since the p-value is more than the 0.05 level of significance leading to the acceptance of the null hypothesis. Hence, the alternative hypothesis was instead rejected. This corroborates the results of Ghani and Rosli Mahmood (2015) and Alawattegama (2018) found an insignificant relationship between risk assessment and financial performance of banks and micro finance institutions respectively. On the other hand, it contradicts the the study by Momanyi and Njiru (2016) who found that financial risk management practices comprising of; risk identification, risk monitoring, risk assessment and risk mitigation, had a positive correlation to the performance of SACCOs in Nakuru, Kenya. In a similar fashion, Bett and Memba (2017), Rosman et al. (2016), Kirogo et al. (2014) and Nyakundi et al. (2014) found a significant positive relationship between risk assessment and financial performance.

Lastly, the three of the study sought to find out the effect of information and communication on financial performance of Moonbluz enterprise. Table 4.10.1 showed that the coefficient of information and communication is -0.341, with a p-value=0.002. This indicates that a unit decrease in information and communication leads to an increase of 0.341 in the financial performance of Moonbluz enterprise holding other factors constant. Moreover, the effect is significant since the p-value is less than the 0.05 level of significance leading to the rejection of the null hypothesis. Hence, the alternative hypothesis was instead accepted. Similar results were reported by Ironkwe and Otti (2016) who concluded that the quality of accounting information contributes significantly to the performance of banks in Nigeria. This is similar to the finding by Ali et al. (2016), Bett and Memba (2017) and Nyakundi et al. (2014). On the contrary, Alawattegama (2018) established that information and communication have an insignificant positive impact on firm performance.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the study's findings, conclusions and recommendations.

5.1 Summary of Findings

The study sought to establish the effect of control activities on financial performance of Moonbluz enterprise. The results indicate that control activities have a negative and significant effect on financial performance of Moonbluz enterprise.

The study also sought to determine the effect of risk assessment on financial performance of Moonbluz enterprise. The results indicate that risk assessment has a positive and insignificant effect on financial performance of Moonbluz enterprise.

The study further sought to determine the effect of information and communication on financial performance of Moonbluz enterprise. The results indicate that information and communication have a negative and significant effect on financial performance of Moonbluz enterprise.

5.2 Conclusions on the Study Findings

The findings of this study both support and contradicts previous theoretical and qualitative studies on internal control systems and financial performance. From the findings on the effects of internal control systems and financial performance of distribution companies in Kenya (Moonbluz Enterprise), the study found that certain aspects of affect the financial performance. In view of the study findings, it can be concluded that both control activities and information and communication have a negative and significant effect on financial performance of Moonbluz enterprise. The study further concluded that risk assessment has a positive and insignificant effect on the financial performance of Moonbluz and thus distribution companies in Kenya.

5.3 Recommendations of the Study based on the Conclusions

In line with the above conclusions, the study recommends to the management of Moonbluz enterprise and other distribution companies of the need for 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 assessment of risk associated to be carried out regularly so that the management can know whether or not the institutions objectives will be met. The institution should also 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. The study further recommends that periodic reports be made to top management of the institution. 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. Finally, the researcher recommends that distribution companies should take into consideration the findings of this study on how internal control systems affect financial performance which in the long run affects organizational success. Specifically, the corporate leaders should consider; control activities and information and communication.

5.4 Limitation of the Study

The outcome of the study may not be applicable to all the distribution companies in Kenya since the study was limited only to Moonbluz enterprise. The findings of the study may also not be conclusive enough as the use of predetermined questions may have forced respondents to give skewed responses.

5.5 Suggestions for Further Research

In order to improve on this study, the researcher suggests that further investigations be done on the effects of internal controls on the financial performance of other institutions such as banking, educational and commercial, among others in the country so as to generate adequate empirical literature on the topic. Besides, this study was only carried out in Kisumu specifically at Moonbluz enterprise located in Kisumu county and thus implying that the findings are only limited to this distribution company. Further study needs to be done on the same topic but in other institutions both nationally and in the international arena.

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