ROLE OF INTERNAL CONTROL SYSTEMS ON THE FINANCIAL PERFORMANCE OF BANKING INSTITUTIONS IN KENYA

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ABSTRACT

The banking sector in Kenya has faced a lot of crises as a result of under-capitalization, towering levels of non-performing loans and weak internal control systems. Effectiveness and efficiency of internal control systems therefore on financial performance should be considered essential in banking institutions because of the tasks that internal control system are designed to achieve. Internal control is an essential part of good corporate governance. The general purpose of the survey is to assess the role of the internal control systems on the financial performance of banking institutions. The study used descriptive research design, the population target were the employees of the banking institutions registered by the Central Bank of Kenya. The sample size was 20% of the target population which was randomly drawn from each stratum to form the sample for the study. A pilot study was conducted to test the instrument before the actual research. Pilot test of this study gave a Cronbach's Alpha coefficient of 0.826. A self-administered, questionnaire was used to collect data from the target respondents. Data analysis was conducted using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. The results indicated that control activities, risk assessments, and information and communication systems had positive and significant effect on financial performance of banking institutions in Kenya at 5% significance level while monitori ng procedures had positive but insignificant effect. In addition, the finding of the study revealed that bank institutions had a well elaborate organization structure, management moves with a great integrity in execution of its roles, ethical values and morals are observed in management decisions, top management are committed to the operation efficiency of the system and the concerned parties take necessary action to enhance efficiency of the internal control system. Further result indicated that top management were reluctant to share feedback with junior staff, it takes time to communicate to parties responsible for taking corrective measures and there has been inadequate periodical evaluation and monitoring undertaken by the internal audit department.

Key words: *Control activities, Risk assessment measures, Information and communication, Monitoring procedures, financial performance*

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