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INFLUENCE OF INTERNAL CONTROL MECHANISM ON FINANCIAL PERFORMANCE OF SUPERMARKETS IN KENYA

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Abstract

Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits. As the focus on financial performance and internal control mechanism intensifies within firms, an understanding of how to harness these two trends is increasingly important. The purpose of the study was to find out the influence of internal control mechanism on financial performance of Supermarkets in Kenya. The study was guided by two specific objectives which were to establish the influence of control activities and monitoring on financial performance of the organizations. The population of research consisted of 184 licensed supermarkets in Kenya in 2016 which constituted units of analysis. The study used both secondary and primary data. Descriptive statistics such as mean, standard deviation and frequency distribution was used in the analysis of data. Hypothesis was carried out using analysis of variance (ANOVA), multiple regression and correlation analysis. Data presentation was done by use of tables and figures for ease of understanding and interpretation. From the findings, the study concluded whether control activities and monitoring has any relationship with financial performance of the supermarkets in Kenya, the study found whether a change in control activities would lead to change in financial performance, and whether a change in monitoring would lead to change in financial performance of the supermarkets in Kenya. The study recommended that management in the organizations in Kenya must adopt effective internal control mechanism through efficient control activities and monitoring to enhance financial performance of the organizations.

Keywords: *Control Activities, Monitoring and Financial Performance*

1.1 Introduction

Internal control mechanism is a process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about achievement of an entity's objectives with regard to reliability of financial performance, effectiveness and efficiency of operations in organizations (Abdhallah Dallu, 2016).

For most of its history internal control mechanism has served as a simple administrative procedure evolving around control environment, risk assessment, control activities and monitoring. In recent times, however, a combination of different forces has led to a quiet revolution of the mechanism. Organizations have to

demonstrate accountability in the use of shareholders resources and efficiency in the delivery of services. Many organizations have customarily relied on informal management processes to help develop and sustain their resources and there has increasingly been pressure from banks, government and other stakeholders for these organizations to show accountability, managerial competence and strong internal control mechanism (Hassan Sheba, 2014). The increasing number of business failures and some widely publicized frauds has encouraged firms to put more emphasis on their internal control mechanism, which is specific to their particular operating environment. Management is under increased pressure to enhance the effectiveness of internal control and to effectively communicate this to the board of directors and shareholders (Kuhn and Sutton, 2010).

All over the world there is a realization that the Internal controls has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of internal controls from the Institute of Internal Auditors (the IIA). Global organizations have come to the realization that internal control is essential in improving management of assets in companies leading to their improved financial performance (Basel Committee, 2002).

Globally, internal control mechanism is a tool for ensuring that an organization realizes its mission and objectives. Internal controls are often thought to be the domain of accountants and auditors; it is actually management that has primary responsibility for proper controls. A critical element of any comprehensive Internal Control mechanism is regular monitoring of the effectiveness of internal controls to determine whether they are well designed and functioning properly. Weaknesses in internal control mechanism (control over the payroll, over expenditure commitments and over procurement processes) lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money will be attained in public spending. The widespread global corporate financial scandals in past years inform the importance of internal controls. Notable cases include Enron and WorldCom in the USA, Parmalat in Europe and Chuo Aoyama in Asia. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed that the absence of internal controls or the presence of weak internal controls is the primary cause of many cases of fraudulent company financial reporting (Treba, 2003).

Africa is rapidly following suit, led by South Africa which has seen a ‘spectacular’. Kenya and others are following, and the process is hastened by the multinational aspirations of the South African control mechanism. The process is also taking place in low-income Mediterranean countries such as Morocco and Tunisia (Codron et al., 2004). In South Africa, cases of financial scandals have been recorded in JCI and Randgold and Exploration companies. In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating the profits of the company for some years before the company’s foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically (Hayes et al., 2005).

Kenya has recently made progress in closing the gap between national financial practices and international standards, notably by adopting the IASs and ISAs as national requirements. However, its compliance with these requirements is partial, due to enforcement mechanisms that continue to evolve and inadequate resources. In spite of these difficulties, institutional investors in Kenya perceive that the quality of internal controls has significantly improved over the past 12 months. However, the legal framework governing internal controls and the enforcement mechanism need improving. Stakeholders in the country believe that successful completion of appropriate capacity-building initiatives, through implementation of an action plan, would help develop

internal control practices and improve compliance with international standards within a period of three to five years (World Bank, 2010).

Most of Kenyan organizations have weak internal control mechanism, and are unwilling to pay adequate attention for the application of rigorous and time-consuming control procedures. Thus professionals are often unable to consider the assessed level of inherent and control risks in carrying out substantive procedures required to reduce their risk to an acceptable level. In addition, many professionals lack adequate knowledge of information technology to assess the risks of highly computerized organizations (ICPAK, 2011). Enterprises have concentrated on the availability, accessibility and cost efficiency in the utilization of finances. In Kenya little attention has been paid to the great role played by the internal control mechanism in the performance of businesses. Retailers have operated in total disregard of internal control mechanism leading to the mass failure of these business organizations (Lydia Were, 2011).

1.1.1 Supermarkets in Kenya

The retail industry in Kenya is one of the basic industries and has grown tremendously over the years. The industry is made up of 184 supermarkets licensed and regulated pursuant to the provisions of the companies Act (SoftKenya, 2016). The Kenyan retail food sector has expanded significantly during the last ten years as a result of population growth, urbanization and a financially attractive business environment.

Increased investment by leading international retail firms has further boosted consumer confidence, encouraging spending and growing international brand demand. The Kenyan retailing market has witnessed increasing penetration of international retailers that have opened outlets in Kenya. International companies such as Massmart Holding’s Game, Carrefour and Botswana’s Choppies entered the market during the review period. These international brands are responding to a growing demand for quality international brands as a result of high consumer awareness and exposure. This growth has called for mechanism be applied for internal control to enhance resource management hence profitability.

1.2 Statement of the problem

Organizations in Kenya have been marred with inadequate internal management capacity and operational controls. Lack of control mechanism in supermarkets has led to huge investments lost through fraud and misuse of assets that are used to generate revenues while shareholders and supermarkets have suffered big losses. Inadequate controls have also led to corruption and collusion of management and auditors leading to organizations failing to achieve their set objectives (Magara, 2013).

Stakeholders now demand that scarce resources must be deployed more efficiently to minimize and manage risks. Technological advancement makes control environment possible to track and analyze data with continually increasing monitoring thus making it essential for organizations to be well informed. A report by Mawanda in 2008, concluded that there was a significant positive relationship between internal control system comprising control environment, internal audit and control activities on one hand, and financial performance as measured by liquidity, accountability and reporting on the other hand.

There have been a number of valuable studies on internal control mechanism in Kenya. Kibet (2008) carried out a survey on the role of internal controls in promoting good corporate governance in SOEs; Kibara (2007) similarly carried out a survey of internal auditors risk management practices in the banking industry in Kenya; Keitany (2000) studied the internal audit control function and its implication for risk assessment by the external auditor. However, none of these studies have looked at the relationship between internal controls and financial performance of the retail sector, particularly Supermarkets.

A question is left unanswered as to whether internal controls deficiency is to blame when organizations are at the point of collapsing. It is against this background therefore that the study seeks to establish a response to the dominant question; what is the effect of internal controls on financial performance of supermarkets in Kenya?

1.3 General Objective

The objective of this research is to establish the influence of internal control mechanism on financial performance of supermarkets in Kenya.

1.3.1 Specific Objectives

1. To find out the influence of control activities on financial performance of supermarkets in Kenya.
2. To determine the influence of monitoring on financial performance of supermarkets in Kenya.

1.4 Research Questions

1. What is the influence of control activities on financial performance of supermarkets in Kenya?
2. What is the influence of monitoring on financial performance of supermarkets in Kenya?

1.5 Scope of the Study

The study was about influence of internal control mechanism on the financial performance of supermarkets in Kenya. The study specifically focused on determinants of financial performance in supermarkets in Kenya. The study focused on a sample of 285 management employees from a population of 256 senior management employees, 364 middle management employees and 482 management assistants totaling to 1102 employees. This study comprised of 184 units of analysis which are the licensed supermarkets in Kenya (SoftKenya, 2016) from which the target and accessible population was drawn.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Reliability Theory

Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilov and Gavrilova, 2001). According to the reliability theory, an internal control mechanism comprises of components that are interrelated and there needs to be a de-fined controls of success. As such, the state of a component is determined by whether the component is „successful‟ or „not successful‟. The reliability of a component is defined as the probability of the component being found in the „success‟ state. In addition, the reliability of the entire internal control system is a binary combination with two possible values, „success‟ and „failure‟. This study considered the part of the reliability theory which relates the internal control mechanism to control activities reliabilities.

This study is anchored on Reliability theory and among the main users of the theory is the organization management in segregation of duties, authorization and approvals as well as verification and reconciliations. Kinney (2000) states that; during the verification and reconciliations evidence is gathered to support the end report. Lack of control activities result in more substantive work and hence greater cost. 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 data from the organization’s past performances or other organizations may provide a more solid basis for judgment of

the impact of control activities on the organization's income and hence provide for more rational allocation of the management time and effort.

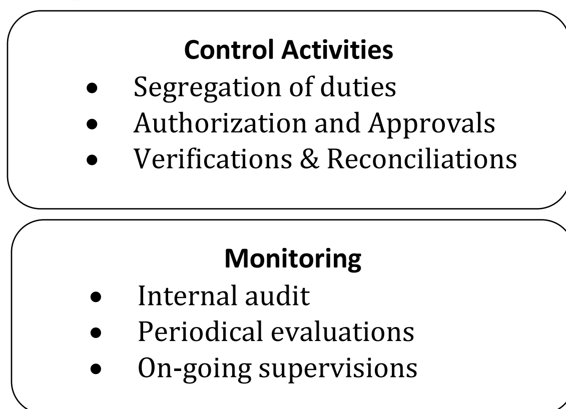
2.1.2 The Agency Theory

According to the agency theory, a firm consists of a nexus of monitored contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals" ability to monitor whether or not their interests are being properly served by agents. Monitoring can be done through internal audit, periodical evaluations and ongoing supervisions. According to the theory, in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. The agent-principal relationship is strengthened more by the principal employing a system (internal controls) to monitor the agent (Jussi and Petri, 2004).

Further the theory recognizes that any incomplete information about the relationship, interests or work performance of the agent described could be adverse and a moral hazard. Moral hazard and adverse selection impact on the output of the agent in two ways; not possessing the requisite knowledge about what should be done and not doing exactly what the agent is appointed to do. The agency theory therefore works on the assumption that principals and agents act rationally and use monitoring to maximize their wealth (Jensen and Meckling, 1976).

2.2 Conceptual Framework

Independent variable **Dependent variable**



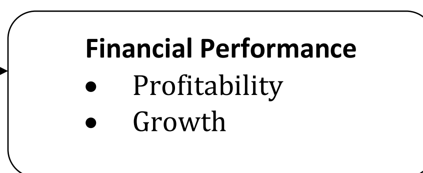


Figure 2.1 Conceptual framework

2.2.1 Control activities

Control activities are the actions established through policies and procedures that help ensure that management's directive to mitigate risks to the achievement of objectives are carried out. They are performed at all levels of the entity, at various stages within business processes, and over the technology environment. Internal controls may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and segregation of duties (COSO, 2013).

2.2.2 Monitoring

All issues pertaining to internal control mechanism must be evaluated and followed up. There must be a continuous monitoring of procedures and systems. It is through the monitoring process that assessment is made on the quality of a system's performance. The process of monitoring entails on-going supervision, including other actions undertaken by personnel in the performance of their duties. Frequency and scope of evaluation are dependent on risk assessment and procedures of monitoring. Once challenges in the control system have been identified, they should be brought to the attention of the senior personnel (COSO, 2013).

2.2.3 Financial performance of Supermarkets in Kenya

Organizational performance encompasses accumulated end results of all the organization's work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organizational performance include; profitability, growth and compliance to laid down rules and regulations. (Gerrit & Abdolmohammadi, 2010).

2.3 Empirical Review

2.3.1 Control activities

Using the analytical approach and focusing on control activities and monitoring, Barra (2010) investigated the effect of penalties and other internal controls activities on employees‟ propensity to be fraudulent. Data was collected from both managerial and non-managerial employees. The results showed that the presence of the control activities increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of control activities for an employee to commit fraud. Further, it was established that control activities is a "least-cost" fraud deterrent for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost" fraud disincentives. The results suggest the effectiveness of preventive control activities such as segregation of duties is dependent on detective controls.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on banks‟ ability to investigate staff fraud and staff life style and fraud detection in Nigeria. Data were collected from thirteen Nigerian banks using a four point likert Scale questionnaire and analyzed using percentages and ratios. The study found that internal control design influences staff attitude towards fraud such that control activities are deterrence to staff fraud while lack of controls exposes the system to fraud and creates opportunity for staff to commit fraud. In addition Kakucha (2009) evaluated the level of effectiveness of internal controls of enterprises operating in Nairobi. The study was quantitative and was conducted between September 2007 and June 2009 using a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. Primary data was collected from the managers and the study established that there are deficiencies in control activities, with the degree of deficiencies varying from one enterprise to another. The study established that the sample population had limited awareness of what constituted an effective system of internal control. The recommended that there was need to enlighten the operators of small business of what constitutes an efficient and effective internal control activities through forums and seminars.

2.3.2 Monitoring

Many researches have been carried out on monitoring. In 2012 Eko Suyono and others carried out research based on "Relationship between Internal Control and Organization Commitment with Good Governance, Indonesian Case". Data was evaluated using multiple linear regression analysis and the result showed that there is positive relationship between monitoring and good governance. Additionally Uket and Joseph (2012) carried

out research on "The impact of monitoring on Bank's ability to investigate Staff fraud, and Lifestyle and Fraud detection in Nigeria". It was deduced that monitoring is positively correlated to fraud detection in Nigeria. A case of the Electricity Company of Ghana (ECG) Ltd, Accra East Region" is a research study conducted by Francis and Samuel (2013). It was also concluded that no monitoring is bound to be completely efficient or fault-free. It is very important that the management overrides the control system and frequently evaluates the control system for best performance.

Qaisar and Javid (2012) carried out a research on "Internal Control System: Analyzing Theoretical Perspective and Practices". It was discovered that an established and successfully implemented monitoring assists in proper utilization of resources and a framework for operations for every kind of organization. It was deduced that monitoring generate reliable financial data which assist stakeholders in proper decision making. Another research paper by Ngwenya (2013) on the topic "Application of Internal Controls in NGOs: Evidence from Zimbabwe" investigated the degree to which NGOs in Zimbabwe implement internal controls in their procedures. The result of the study concluded that strong internal control structures are adopted by the NGOs in Zimbabwe with respect to control environment, Control activities and monitoring.

A study by Amudo and Inanga (2009) from Uganda evaluated the monitoring systems that the regional member countries of the African Development Bank Group institute for the management of the Public Sector Projects that the Bank finances. The data was received and analyzed for eleven projects and the outcome of the evaluation process was that monitoring among other control components of effective internal control systems were lacking in those projects. These rendered the control structures ineffective.

2.3.3 Financial Performance

Among the studies which have been carried out on the effect of internal controls on financial performance include, Mutua (2012) who researched on impact of risk based audit on financial performance of commercial banks in Kenya. Although her study concentrated on risk based audit, she acknowledged that financial performance requires appropriate effective and efficient internal control mechanism. From the findings, the study concluded that internal control mechanism should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal control mechanism and financial performance. In addition, Ndege researched on Performance and financial ratios of commercial banks in Kenya in 2012. The objective of his study was to identify factors, in a ratio form that shape bank performance as measured through return on assets (ROA) and return on equity (ROE).In his study he mentioned that internal control mechanism is positively correlated to financial performance of banks in Kenya. Internal control mechanism do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyze the factors affecting implementation of internal control mechanism in Kenyan banks.

2.4 Critique of Existing Literature

Even though for over decade, the researchers and scholars have studied the internal controls on organization performance. They argued that internal control mechanism existence cannot be rigid as the controls and are formulated and implemented in response to specific situation although business exists in unpredictable environment. Although internal control is a fundamental part of a successful financial performance, the maintenance cost of the system might be high thus drags the process to effectively manage failures. Many

organizations are struggling with the implementation of their internal control mechanism. Much time is spent on evaluating control environment, monitoring, carry out risk assessment and implementing internal controls. Even though this was done thoroughly, many organizations still fail to successfully implement the control mechanism. Hambrick et al., (2009) stated that without successful implementation, a mechanism is but a fantasy. In addition to spending time on the formulation of a control mechanism, organizations should spend enough time on the implementation.

Learning from literature, most organizations include different parties during the controls implementation process. Although many experts are included in these parties, one of the organizations' expert s is forgotten in most cases, i.e. the controls staff. With this detailed knowledge of the organization, its process, the organizational culture and the risks the organization is facing, the internal control department is one of the most knowledgeable section of the organization. More importantly, the expertise of the management committee on internal controls and the performance makes them excellent candidates to help organization successfully implement the control mechanism.

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive cross-sectional research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs were found to be accurate in descriptive studies and generalizations of results (Ngechu, 2004). The study involved the evaluating the effect of Internal control mechanism in the financial performance of supermarkets in Kenya. Both qualitative and quantitative data was collected using a semi-structured questionnaire. This study comprised of 184 units of analysis which are the licensed supermarkets in Kenya (SoftKenya, 2016) from which the target and accessible population was drawn. The study population which represents unit of observation comprised of 256 senior management employees, 364 middle management employees and 482 management assistants totaling to 1102 employees. The population matrix was as laid on Table 3.1.

Table 3.1 Target Population

Category	Target Population	Percentage
Senior Managers	256	23.2
Middle Managers	364	33.1
Assistant Managers	482	43.7
Total	**1102**	**100**

The target sample size was distributed within the 184 licensed supermarkets in the three strata using study population ratio which ensured that the distribution is unbiased and balanced. The recommended formula for determining appropriate sample is demonstrated by the equation below.

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2\, pq}$$

$$n = \frac{1.96^2 x 0.5 x 0.5 x 1102}{0.05^2(1102-1) + 1.96^2 x 0.5 x 0.5}$$

$n=285$

$p=0.5,\ q=0.5,\ Z_{0.025}=1.96,\ e=0.05$

Where: e= Expected error; n= Sample size; N= Entire population; Z= Level of significance;

p= Probability that individual have characteristics being studied.

q= Probability that individual doesn't have characteristics being studied.

The sample matrix was as laid on Table 3.2

Table 3.2 Sample size

Category	Target Population	Ratio	Sample size
Senior Managers	256	0.259	66
Middle Managers	364	0.259	94
Assistant Managers	482	0.259	125
Total	**1102**		**285**

Date was collected by used of a survey questionnaire distributed to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data collected for the study. The researcher administered the questionnaires individually to the selected employee of supermarkets. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and to achieve this, the researcher maintained a register of questionnaires which were sent and which were received.

Quantitative data collected was analyzed using Statistical Package for Social Sciences (SPSS Version 22) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, tables and figures. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS (Version 22) to communicate research findings. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions.

Correlation analysis was used as a way of assessing the relationship between internal control mechanism and financial performance.

Multiple regressions was done to establish the effect of internal control mechanism on financial performance of supermarkets in Kenya. The data was presented using tables and figures to make them reader friendly. The following conceptual model was adopted in the study where Performance (Y) is a function of control activities ($X1$) and external monitoring ($X2$) in the supermarkets:

Where

The following regression model was used to perform data analysis

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \varepsilon$ …………………………………………….. (1)

Y = Financial Performance

$X1$ = Control activities

$X2$ = Monitoring

4.0 DATA ANALYSIS, INTERPRETATIONS AND PRESENTATION

4.1 Response Rate

The sampled respondents totaled 285, which consisted senior management staff, middle management staff and management assistant staff. The senior and middle management staff play significant role in internal controls mechanisms and the management assistants serve to criticize the effectiveness of the financial performance of

the supermarkets. In the current study out of 285 distributed questionnaires, 206 were successfully collected which was a response rate of 72.28%. This response rate was considered adequate following Groves et al. (2004) observation that a response rate of 50% and above is considered adequate for paper based questionnaires.

Table 4.1: Response Rate

	Sampled	Actual Response	Percentage
Senior Managers	66	33	50.00
Middle Managers	94	79	84.04
Assistant Managers	125	94	75.20
Total	285	206	72.28

4.2 Descriptive Statistics

4.2.1 Control activities

Respondents gave their views on control activities and the Table 4.2 shows the level of agreement. On segregation and separation of roles, findings indicate a mean of 4.15. Every employee's work check on the others with a mean of 3.92. Findings on There is appropriate supervision by senior staff on the work of their juniors indicate a mean of 4.26. On Staff s are trained to implement the accounting and financial management system policies a mean of 3.73 was revealed. The issue of, being impossible for one staff to have access to all valuable information without the consent of senior staff recorded the mean of 4.38. Findings on Controls are in place to exclude incurring expenditure in excess indicate a mean of 3.79. On departments having budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given results reveals a mean of 3.98. Lastly findings on the security system identify and safeguards institutional Assets indicate the highest mean of 4.64. The findings concur with the research by Barra (2010), presence of control activities increases the cost of committing fraud. Also the study is supported by Ewa and Udoayang (2012) who found that lack of control activities creates opportunity for staff to commit fraud.

The mean index stood at 4.07 which translates to 81.4% thus, the statements indicate that control activities has a significant effect on the financial performance of supermarkets in Kenya. On the basis of this findings, the study concludes that effective control activities has the most significant influence on the financial performance of supermarkets in Kenya.

Table: 4.2: Summary of statements on Control activities

Statement	Percentage	Mean	SD
Our institution has clear separation of roles	84	4.15	.764
Every employee's work check on the others	73	3.92	.843
There is appropriate supervision by senior staff on the work of their juniors	82	4.26	.746
Staff s are trained to implement the policies in the management system	79	3.73	.766
It is impossible for one staff to have access to all valuable information without the consent of senior staff	87	4.38	.823
Controls are in place to exclude incurring expenditure in excess allocated funds	78	3.49	.829

Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	79	3.98	.740
The security system identify and safeguards organization Assets	85	4.64	.755
Mean Index	**81**	**4.07**	

4.2.2 Monitoring

The findings indicate that, on the issue of our institution having an internal audit department the highest mean of 4.12 was recorded. Further on internal audit being sufficiently staffed, it indicated a mean of 3.11. Findings on Internal audit staff conducting regular audit activities in the organizations indicated a mean of 3.62. Findings shows that internal audit report address weaknesses in the internal control system with a mean of 3.14 Findings on Management discusses internal audit reports frequently indicate a mean of 3.04. On the issue relating to internal audit department visits up-country centers often a mean of 3.37 was indicated. Finally on Internal auditor performs his duties with a greater degree of autonomy and independence from management indicated the lowest mean of 2.51. These findings are in line with Uket and Joseph (2012), monitoring is positively correlated to performance. In addition, Qaisar and Javid (2012) concluded that monitoring generate reliable financial data hence better performance.

The mean index stood at 3.34 which translates to 66.8%, hence high levels of agreement with the statements. Which indicates that monitoring has a significant effect on the financial performance of supermarkets in Kenya.

Table 4.3: Summary of Statements on Monitoring

Statement	Percentage	Mean	SD
Our company has an internal audit department	86	4.12	.615
Our internal audit is sufficiently staffed	72	3.11	.724
The staff conduct regular evaluation activities in our organization	82	3.62	.831
Management conducts on-going supervisions in the industry.	81	3.81	.679
Internal audit regularly report on weaknesses in our internal control system	72	3.14	.761
Management discusses internal audit reports frequently	70	3.04	.942
Internal audit department visits up-country centers often times	83	3.37	.793
Internal auditor performs his duties with a greater degree of autonomy and independence from management	65	2.51	.756
Mean Index	**76**	**3.34**	

4.2.3 Financial performance

Performance is the dependent variable of this study. The findings in Table 4.4 indicate that respondent agreed that the supermarkets annual sales have been growing and reveals a mean of 4.37. On the issue of our institution has enough cash to meet its obligations effectively the findings indicated a mean of 3.96. Further study indicates that the staff base has been increasing over time and indicated a mean of 4.42. On the income earned by our organization is appropriate to cover the costs of running the business a mean of 3.56 was revealed. Findings on all banks loans are dully corrected and outstanding loans and fees are dully paid in time indicate

a mean of 3.98. The findings on the banks asset base has greatly increased over time indicate the lowest mean of 3.25 and finally the respondents agreed that tax is always paid on time with the highest mean of 4.56.

The overall mean index of 4.01 shows that majority of the respondents were in agreement with the statements. This indicates that control activities and monitoring has a significant effect on the financial performance of supermarkets in Kenya.

Table 4.4: Summary of Statements on Financial performance

Statement	Percentage	Mean	SD
There has been increase in sales in the company	82	4.37	.836
Our organization has enough cash to meet its obligations effectively	78	3.96	.796
The number of staff have been increasing I the last few years.	83	4.42	.817
The income earned by our organization is appropriate to cover the costs of running the business.	76	3.56	.765
Outstanding loans and fees are dully paid in time	79	3.98	..799
The Banks asset base has greatly increased over time	62	3.25	.842
Tax are always paid on due dates.	85	4.56	.712
Mean Index	**78**	**4.01**	

4.3 Correlation Analysis

Table 4.5 summarize the results of correlation test analysis between the dependent variable (Financial performance) and independent variables and correlation among the independent variables themselves. The study revealed that the financial performance of supermarkets in Kenya and control activities has a positive correlation with financial performance recording the highest coefficient of 0.814, with a p-vale of 0.050. Monitoring associate positively with financial performance and the coefficient recorded is 0.658, with a p-value of 0.031. The study shows that the result is significant at α=5% and any positive change in level of monitoring and control activities, led to improved financial performance of supermarkets in Kenya.

Table 4.5: Bivariate Correlation

		Financial Performance	**Control Activities**	**Monitoring**
Financial Performance	Pearson Correlation	1		
	Sig. (2-tailed)	.		
	N			
Control Activities	Pearson Correlation	0.814	1	
	Sig. (2-tailed)	0.050	.	
Monitoring	N	206		
	Pearson Correlation	0.658	0.243	1
	Sig. (2-tailed)	0.031	0.032	.
	N	206	206	

4.4 Regression Analysis

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In order to establish statistical significance of the independent variables on the dependent variable (financial performance), regression analysis was employed. The table 4.6 shows that the coefficient of determination also known as R square is 57%. This means that the combined effect of the predictor variables (Control activities and Monitoring) explains 57% of variation in financial performance leaving 43% unexplained. Further studies should be done to establish other determinants (43%) of financial performance of supermarkets in Kenya.

The correlation coefficient or R of 75.5% indicates that the combined effect of the predictor variables has strong and positive correlation financial performance. This also meant that a change in the drivers of financial performance has a strong and positive effect on financial performance of supermarkets in Kenya.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	**0.755[a]**	**0.570**	**0.551**	**0.151**

4.4.1 ANOVA

Analysis of variance (ANOVA) on Table 4.7 shows that the combined effect of control activities and monitoring was statistically significant in explaining changes in financial performance. This is demonstrated by a p value of 0.000, which is less than the accepted critical value of 0.05. The F calculated at 5% level of significance was 82.71. Since F calculated is greater than the F critical (value=2.449), this shows that the overall model was significant.

Table 4.7 ANOVA

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	9.264	4	2.316	82.71	0.000
Residual	5.702	201	0.028		
Total	14.966	205			

a. Predictors: (Constant) Control activities , Monitoring

b. Dependent Variable: Financial performance

4.4.2 Regression Coefficients

The regression equation took the following form.

$Y=\beta_0+\beta_1 X_1+\beta_2 X_2 + e$

Where:

Y= Financial Performance

X_1= Control Activities

X_2= Monitoring

e = the error term which is assumed to be normally distributed with mean zero and constant variance. In the model β_0 = the constant term while β_ii= 1 &2 was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1,X_2 and e is the error term, which captures the unexplained variations in the model.

Table 4.8 displays the regression coefficients of the independent variables and the established model for the study was:

$Y=0.942+0.814X_1+0.662X_2$

The results reveal that the level control activities (X_1) and monitoring (X_2) are statistically significant in financial performance (Y). Regression results indicate that Control activities (X_1) has a positive and significant relationship (beta=0.814, p value 0.010) which indicate that an increase in control activities (X_2) by one unit leads to increased financial performance (Y) by 0.814 units. Results shows that monitoring (X_2) has a positive and significant relationship (beta=0.764, p value 0.009). The findings conclude that an increase in control environment (X_2) by one unit leads to increased financial performance (Y) by 0.764 units.

Table 4.11: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.942	0.139		6.777	0.000
	Control Activities	0.814	0.211	0.731	3.858	0.010
1	Monitoring	0.764	0.205	0.498	3.727	0.009

a. Dependent variable: Financial Performance

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings

5.1.1 Control Activities

The study found that control activities is the main determinant of financial performance of the supermarkets in Kenya. Control activities is positively associated to financial performance. The influence was deduced to be brought by the fact that there is increased level of segregation of duties, verifications and reconciliations as well as authorization and approval of operations in the supermarkets. This study recommends that managers optimize control activities because was established as key determinant of financial performance in the supermarkets.

5.1.1 Monitoring

Finally the study found that monitoring as a determinant had a significant positive influence to the financial performance of supermarkets in Kenya. The influence was found to be caused by the ability of supermarkets to maintain internal audits, periodical evaluations and robust ongoing supervisions to their operations. Lastly the study recommends continuous monitoring in supermarkets operations for a better financial performance.

5.2 Conclusion

The conclusions were based on the study objectives, the study concludes that internal control mechanisms drive a significant positive influence on financial performance of supermarkets in Kenya. The results established that existence of internal control mechanisms drivers significantly and positively influence the supermarket's financial performance. In relation to control activities the study concluded that control activities has the greatest positive influence to supermarkets financial performance in Kenya. Further, the study concluded that monitoring positively influence financial performance of supermarkets in Kenya. The study

deduced that Kenyan supermarkets desire to have an accelerated financial performance which would be achieved through improved internal control mechanisms. Due to this, there is a need to focus on internal control mechanisms.

5.3 Recommendations

Based on the results, findings and conclusions the following recommendations have been deciphered. Regarding control activities, the study found that the reasons why there is poor financial performance among supermarkets in Kenya is due to weak control activities in operations. The study recommends that once the organizations embrace control activities they should be strong and achievable. The study further recommends that the organizations in Kenya should enhance segregation of duties ensure there is authorization and approval as well as regular verification and reconciliation of transactions.

The study finally found that monitoring is a major influence on financial performance. Therefore the study recommends that the organizations in Kenya should put in consideration effective monitoring in their operations. This can be achieved by conducting internal audits, periodical evaluations and ongoing supervisions.

The study findings indicated that the two internal control mechanisms account for up to 57% of the variation in the financial performance of supermarkets in Kenya. This implies that the remaining 43% is explained by other factors not considered by the study. A study can be conducted to establish the other factors affecting financial performance of supermarkets in Kenya. A study can also be conducted to establish the recommends the external determinants of financial performance of supermarkets in Kenya.

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