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ABSTRACT

The main objective of the study was effect of internal control practices on financial performance of based facilities in Kakamega County, Kenya. Specifically, the study aimed to establish the effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County. Target population was 285 employees in faith based facilities in Kakamega County. Stratified simple random sampling technique was used to arrive at the population sample. Fisher's formula was used to arrive at a total of 164 respondents that which was the sample size of the study. Data collection instruments were both primary and secondary. Primary data collection instruments namely questionnaire was used to get firsthand information from the respondents on internal control practices in their facilities. Secondary data collection involved documentary analysis to capture information on financial performance of the facilities. Descriptive and inferential statistics which included mean, frequency and regression was used in this study. The test criteria were to reject the null hypothesis if the value of beta was not equal to zero ($\beta_1 \neq 0$). The results implied 37.7% of change in financial performance is attributed to risk assessment control practices. Therefore the hypothesis was rejected. On conclusion, the study established a statistically significant correlation between risk assessment control practices and financial performance. The findings of the current study formed a basis for reference in future by interested parties.

Key Words: *Risk Assessment, Internal Controls*

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INTRODUCTION

Globally, every organization both profit or non-profit organization has its objectives and goals in mind to achieve. With these non-profit making organization, their goal is to satisfy the social need of the citizens and in the effort to achieve these purposes, supervision more often than not play a vital role. The size and scope of these organizations have sometimes made it hard for the executors to exercise personal and first hand supervision of operation. It is in this light that internal control or internal audit system established by management is initiated (Uwaoma and Ordu, 2015). If an organization is to carry out its business there must be some factors put in place for the smooth running of the organization like materials, machines, money, people etc. These need to be well coordinated in order for the success of the organization to be achieved. These factors are used by a group of persons known as management. Neither can management exist without an organization both is inseparable (Matata, 2015).

Internal financial controls direct, monitors, and measures utilization of funds to control risks to an organization and maximize profitability and returns on equity. They protect the integrity of an organization's financial information and establish structures of transparency, accountability, accuracy in reporting and validity. Effective internal financial control system gives assurance to integrity of financial reporting and safeguards institutional assets as it forestall fraud and error. Strong internal controls have been strongly linked to increased organization performance in relation to growth, competitiveness, quality of service, returns on equity and profitability (Kuo, 2015).

Ashbaugh-Skaife, Collins, Kinney and Lafond (2008) documented that firms reporting internal control weaknesses have more complex operations; have experienced recent changes in organizational structure; are at increased exposure to accounting risks; and have fewer resources to invest in internal control. Furthermore, Doyle, Ge and McVay (2015) indicated that firms with material weaknesses have a lower earnings quality than those that do not report material weaknesses. Additionally, Hammersley, Myers and Shakespeare (2013) showed a negative market reaction to firms that had reported material weaknesses in internal control.

In Kenya, The Treasury News of 2010 revealed that between 25 and 30 percent of the national budget or about Kshs. 270 billion is lost annually through fraud. These loses were mainly attributed to the escalation of costs in Government procurement occasioned by weak internal controls. Reports from watch dog institutions also revealed that government departments do not properly account for funds allocated to them (Ndege O, J., Odhiambo A and Byaruhanga J, 2015). Internal controls have become of paramount importance today in Kenyan banks. The reason being that the control systems in any organization are a pillar of an efficient accounting system (Wanemba, 2010).

When we come down to organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations (Kenya Company's Act cap 486). At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (like how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes (Etuk, 2011).

Statement of the Research Problem

The internal control is essential corporate governance mechanism of the firm based on internal control statement quality that it should be to control effectiveness and also influences the reliability of financial reporting both in internal and external's firm (Skaife et al, 2013). It is worth noting that internal

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controls only provide reasonable but not absolute assurance to an entity's management and board of directors that the organization's objectives will be achieved. However, the motivation of the study is directed by the fact that the likelihood of achievement is affected by limitations inherent in all systems of internal control (Gerrit and Abdolmohammadi 2010). PROCASUR Africa Report (2012) stated that poor control systems in has led to huge investments lost through fraud and misuse of assets that are used to generate revenues while members and institutions have suffered big losses. Inadequate controls have also led to corruption and collusion of management and external auditors leading to organizations failing to achieve their set objectives. Technological changes have also brought with them challenges in control systems and this has necessitated the development of new ways of controlling organizations.

Wanjala (2015), assessed the effect of cash management practices on Matatu Sacco growth in Kimilili Sub- County. The study concentrated on cash management and growth of Matatu Sacco. This presents a conceptual gap. The present study was done in faith based facilities. Another study by Abdi (2015), investigated impact of internal control system on financial performance in Mogadishu private banks. The study was done in commercial banks in Mogadishu. This presented conceptual and contextual gaps. Muthusi (2017) did a study on effect of internal control on financial performance of commercial banks in Kenya. The study therefore involved all the commercial banks in Kenya, thus creating a methodological gap. The present study was carried out in faith based health facilities in Kakamega County. It is on this basis that this study sought to establish effect of risk assessment control practices on financial performance of faith based health facilities in Kakamega County, Kenya.

General objective of the Study

The overall objective of the study is to establish effect of internal control practices on financial performance of faith based facilities in Kakamega County, Kenya. Specifically the study aimed to establish effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County.

The following null hypotheses guided the study;

$H_0$1: There is no significant effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County.

LITERATURE REVIEW

Attribution Theory

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. According to Schroth and Shah (2000), studies using attribution theory examine the use of information in the social environment to explain events and behaviors. Reffett (2007) asserts that when evaluators believe comparable persons would have acted differently in a given circumstance, they (evaluators) tend to attribute responsibility for an outcome to the person. According to Wilks and Zimbelman (2004), the first case refers to internal or dispositional attributions while the second one refers to external or situational attributions.

The auditor's accountability for detecting fraud is extended by Reffett's (2007) study which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they had identified the fraud occurrence as a fraud risk. The result of Reffett's study shows an increase in auditors' liability when an audit fails after the auditors had identified the perpetrated fraud as a fraud risk and performed procedures to investigate the identified fraud risk.

Attribution theory thus advocates for auditors to report on the effectiveness of firms' internal control.

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Auditors are therefore expected to gain a better understanding of the internal controls in place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors' reliance and possibly scaling back of other substantive audit procedures for the required performance.

The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors, being the "public watchdogs" are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2007). In reference to the study the attribution theory place the burden of fraud reporting to the relevant individuals within the institutions. Despite growth in technology that has changed the internal control systems structure there will always be a need for a person to manage these systems. As such it's upon such authority figures i.e. managers and the board of directors who should ensure that all the relevant regulatory and compliance issues are adhered with. In reference to our study this theory sought auditors to be in the forefront of reporting fraud when it occurs.

Risk Assessment
- Risk assessment
- Risk evaluation
- Risk Management

Financial Performance
- Market share
- Profitability
- Operational Efficiency

Independent variables

Dependent variable

Figure 1: Conceptual Framework

Source: Researcher's own conceptualization 2018

Empirical Literature Review

Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Maitin, 2010). It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Consequently Menon & Williams (2010) looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets. This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.

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). Risks relevant to reliable financial reporting also relate to specific events or transactions. Shah (2011) 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.

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Though it is difficult to eliminate completely, one can minimize risk by employing risk assessment techniques in his personal and professional capacity.

METHODOLOGY

In this study, descriptive survey was used. In view of this, the field survey method was adopted to collect quantitative and qualitative data, using questionnaires and interviews. Both qualitative and quantitative approaches were used in data analysis, thus there was a mixed model research design approach to data analysis. The study was carried out in Kakamega County. The target population of this study was all the 285 employees in faith based health facilities in Kakamega County. The employees were grouped according to the facility they operate from. Stratified simple random sampling technique was adopted in choice of study respondents to ensure samples were drawn from each facility in the target population. The main research instruments used to collect data in the survey were questionnaires, interview schedules, observation and content Analysis. The data was analyzed using both descriptive and inferential statistics using statistical package for social sciences (SPSS, version 21). This study relied on both primary and secondary data collection instruments. Primary data was be collected by use of semi-structured questionnaire which comprised of closed ended questions on a five point Likert type scale ranging from strongly disagree (1) – to strongly agree (5)

RESULTS

Risk Assessment Control Practices

The objective that this study sought to achieve was to assess how risk assessment control practices influence financial performance. To achieve this, the respondents were asked to give their opinion showing the level of their agreement or disagreement with the statement provided in a Likert scale of 1- 5 where: Strongly agree (SA)=5, Agree(A)= 4, Neutral or not sure (N)= 3, Disagree (D)= 2 and Strongly disagree (SD) = 1. The five statements on risk assessment control practices' results were presented in table 1.

Table 1: Descriptive Statistics of Risk Assessment Practices

Statements	SA f (%)	A f (%)	NS f (%)	D f (%)	SD f (%)	Mean	Std Deviation
Our organization evaluates risks that occur before taking any action	146(65.7)	46(21.6)	24(11.3)	3(1.4)	0(0)	4.5164	0.74882
Employees in our organization are taken through risk analysis process	120(56.3)	83(39)	10(4.7)	0(0)	0(0)	4.5160	0.58758
We have a team that analyses risks and provide way forward in managing them	156(73.2)	43(20.2)	10(4.7)	4(1.9)	0(0)	4.6479	0.66089
Every head of section in our institution is keen to ensure that individuals realize the risks associated with their daily activities	176(82.6)	35(16.4)	2(0.9)	0(0)	0(0)	4.8169	0.41177
The institution understands the risks involved while involved at work place	126(59.2)	48(22.5)	34(16)	5(2.3)	0(0)	4.38850	0.83675
Composite Mean						**4.57714**	**0.64912**

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On our organization evaluates risks that occur before taking any action, out of 213 who responded, 146 (65.7%) strongly agreed, 46(21.6%) agreed, 24(11.3%) were not sure while 2(0.6%) disagreed. This meant majority of the respondents 192 (87.3%) agreed that the organization evaluated risks that occurred before taking any action. The statement mean of 4.5164 was below the composite mean of 4.57714 meaning the evaluation of risks that occur before taking any action influences the least on financial performance.

On employees in our organization are taken through risk analysis process. Out of 213 respondents, 120(56.3%) strongly agreed, 83(39%) agreed, 10(4.7%) were not sure while (0%) disagreed and strongly disagreed respectively. Majority of the respondents 203(95.3%) agreed employees were taken through risk analysis process. The statement mean 4.5160 was below the composite mean 4.57714 meant employees being taken through risk analysis process does not influence financial performance and therefore there is need to strengthen it.

On the statements; we have a team that analyses risks and provide way forward in managing them. Out of 213 respondents 156 (73.2%) strongly agreed, 43(20.2%) agreed, 10(4.7%) were not sure, 4(1.9%) disagreed while 0(0%) strongly disagreed. Majority of the respondents 199(93.4%) agreed that there was a team that analysed risks and provided way forward in managing them though 4 (1.9%) disagreed. The statement mean 4.6479 was below the composite mean 4.57714. This means that the statement did not influence financial support and hence should be enhanced.

On the statement; every head of section in our institution is keen to ensure that individuals realize the risks associated with their daily activities. Out of 213 respondents, 176(81.3%) strongly agreed, 35(16.4%) agreed, 2 (0.9%) were not sure while 0(0%) disagreed and strongly disagreed respectively. Majority of the respondents 211 (97.7%) agreed every head of section in our institution is keen to ensure that individuals realize the risks associated with their daily activities. The mean of the statement was 4.8169 was above the composite mean 4.57714 .This means the every head of section being keen to ensure that individuals realize the risks associated with their daily activities supports financial performance.

On the statement; the institution understands the risks involved while involved at work place. Out of 213 respondents, 126 (59.2%) strongly agreed, 48(22.5%) agreed, 34 (16%) were not sure 5(2.3%) disagreed while 0(0%) strongly disagreed. Majority of the respondents 174 (81.7%) agreed the institution understands the risks involved while at work place. The statement mean 4.38850 was below the composite mean 4.57714. This meant that institution understanding the risks involved at work place did not support financial performance and hence should be enhanced.

The research findings were in agreement with a study done by Khamis (2013) who found out that there is a significant positive relationship between internal control system (control environment) and financial performance of financial institutions. In another research with similar findings Mawanda (2008), established that there is a positive relationship between control environment and financial performance of institutions of higher learning in Uganda as portrayed by his case study of Uganda Martyrs University.

Statistics of Financial Performance

The information on the number of customers revealed that majority of health based facilities 44.1% served over 800 clients in a day. The number statistically increases with time. On Profitability of institutions in the last one year, the secondary data revealed 67% of the institution's records revealed the institutions earned over 1,500,000 over the last one year. They records showed improvement compared to previous years. On level of customer service in the

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organization the findings from the previous records showed most customer feedback was very good about the organization. Information on service delivery showed it was very good.

Hypotheses Testing

The study carried out a multiple regression on risk assessment control practices, audit control activities, monitoring control activities and information systems practices on financial performance. Summary of the results were as shown in Table 2.

Table 2: Model Summary on the Risk assessment control practices on financial performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.449[a]	.202	.190	1.11684

a. Predictors :Market share, Profitability, Operational Efficiency

From the table 2 the R(0.449) and R Square was 0.202 this showed that the model was not perfect related , however the model is positive related

Table 3: Coefficient correlation for risk assessment control practices on financial performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.555	.243		2.283	.023
	Market share	.410	.075	.347	5.485	.000
	Profitability	.172	.070	.156	2.472	.014
	Operational Efficiency	.154	.062	.155	2.495	.013

a. Dependent Variable: Every head of section in our institution is keen to ensure that individuals realize the risks associated with their daily activities

From the results in Table 3, the t-test in the Coefficient of regression model showed that t (statistic) > t (significant) for all dependent variables that there was no enough evidence to accept the null hypothesis that "There was no significant effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County."

SUMMARY

Majority of the respondents 192 (87.3%) agreed that the organization evaluates risks that occur before taking any action. Most respondents 203(95.3%) agreed employees are taken through risk analysis process. Most respondents 199(93.4%) agreed that there is a team that analyses risks and provide way forward in managing them though 4 (1.9%) disagreed. Widely held respondents 211 (97.7%) agreed every head of section in our institution is keen to ensure that individuals realize the risks associated with their daily activities. Most of the respondents 174 (81.7%) agreed the institution understands the risks involved while at work place.

The test statistics for significant effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County was based on the regression analysis of student t test. The results reviled that t stat > t sig. for all the dependent variables. Thus we fail to accept the null hypothesis that, "There is no significant effect of risk assessment control practices on financial performance of faith based facilities in Kakamega County".

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CONCLUSIONS AND RECOMMENDATIONS

The study established statistically significant positive relationship between risk assessment control practices on financial performance. There is need for the management to carry out evaluation of risks that occur before taking any action since it influences financial performance. There is need for employees to be taken through risk analysis process. The management should also put in place a team to carry out risk analysis and manage them. Every head of section should continuously be keen to ensure that individuals realize the risks associated with their daily activities to enhance financial performance. The institution should ensure it understands the risks involved while at work place. The study recommended for evaluation of risks that occur before taking any action influences.

Suggestions for Further Research

The following were suggestions for further research;

- The study was carried out in faith based facilities in Kakamega County. Future studies are encouraged to cover other counties to confirm whether the findings are consistent.
- Future studies are encouraged to cover public health facilities and compare the findings with the current research.
- The research was restricted to health sector. Future studies are encouraged to have other sectors and compare the findings.

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