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Factors Affecting Effectivenes of Internal Control Systems in the County Governments in Kenya: The Case of Elgeyo Marakwet County

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Abstract: **The study evaluated the factors affecting the effectiveness of internal control systems used by the county governments in Kenya through a case study of Elgeyo Marakwet County which affects their overall performance and rating. In Kenya evidence shows that despite many organizations having internal control systems, assets are not properly safeguarded. Although studies have been done on the types of internal control systems adopted by various organizations in Kenya, no study have been done so far on the factors affecting the effectiveness of internal control systems adopted by the county governments. There has been a lot of hue and cry from the public concerning the running of county governments that has led to loss of public funds resulting to slowed development in the various counties contrary to what the public envisaged about devolved governments. The study was guided by the following research objectives: To establish if Elgeyo Marakwet County has competent personnel, to find out if the county personnel have supportive attitude towards internal control systems, to establish the types of internal control techniques used by the County Government and to find out if there is a continuous monitoring and evaluation control established in the County Government. The study of this kind will help the researcher to give good advice to the county governments on the factors affecting the effectiveness of the current internal control systems being used and suggest to them the best practice and systems to adopt in order for it to achieve its objectives by sealing all the corruption loopholes that may be present. The research used a case study research design and it targeted 50 respondents drawn from the 4 sub-county offices and governor's office. Semi-structured questionnaires were used as the data collection instruments. Data collected was then analysed using excel spreadsheets and results presented in tables and pie charts.**

Keywords: **Internal Control Systems, County governments, Elgeyo Marakwet, Internal control techniques.**

1. INTRODUCTION

Despite the fact that internal control systems is expensive to install and maintain, it has gradually evolved over the years. The major development occurred at the beginning of 1940's .Not only the complexities of the business and organizational techniques has contributed to this development but also the increased size of business units which has encouraged the adoption of methods which while increasing efficiency of the business also acts as safeguard against errors and frauds. The urge for the development of sound control systems has come from both the management and the auditors. This is basically because; it may obviate the necessity of protracted detailed work of an auditor (Bailey, 2005). Internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. (Manasseh, 2006) argues that the internal control system is not only internal check and internal audit but the whole system of control, financial or otherwise (non-financial) instituted by the organization to ensure that business of the company is run in an orderly manner and establish safeguards on asset and promote efficient and economical use of the company's resources. And as such enable the company to carry out its operations in an orderly manner. The definition of internal control system is therefore divided into financial internal control and non-financial or administrative internal control. Financial internal controls pertain to financial activities and may be exemplified by controls of a company's cash receipt payments, financing operations and companies' management of receivables and payables. Non-financial internal control on the other hand deals with activities that are not directly financial in nature .This includes controls over the company personnel section and its operation, fixed asset controls and even controls over laid down procedures and policies. In the recent years this internal control system has achieved great importance. It is designed to safeguard the company's assets against misuse, ensures compliance with the laid down organizational policies, ensures that company's personnel are efficiently utilized, ensures that the company runs in an orderly manner and ensures reliable records which are a source of information necessary for managerial decision making process. It's clear therefore that the adoption of a sound internal control system is not only helpful to the management but also to external auditors. The quest for a devolved system of governance in Kenya popularly referred to, as 'ugatuzi' has been a longstanding one. The promulgation of the Constitution of Kenya 2010 (CoK 2010) on 27 August 2010 paved way for realization of the "dream" system of governance. Chapter Eleven (Cap 11) of CoK 2010 – Devolved Government specifically provides for the setting up of the County Governments. Chapter spells out the various principles of devolved government that includes democratic ideals and the separation of powers. County governments will be facilitated reliable sources of revenue to enable them govern and deliver services effectively (CoK 2010). Amongst the objectives of the devolved governments are to ensure equitable sharing of national and local resources throughout Kenya and to enhance checks and balances of county resources and the separation of powers. The scarcity of resources, more so, financial resources can inhibit the attainment of the said objectivities if no proper internal control systems are in place.

2. STATEMENT OF THE PROBLEM

According to Manasseh (1990) organization both large and small, profit making and non profit making are faced with a myriad of problems. Among these problems are: misappropriation of goods, fraudulent manipulation of accounts, embezzlement of cash and suppression or omission of effect of transactions from record or documents. All these problems have made some organizations to be incapable of controlling their financial affairs. Since the adoption of county governments act in Kenya in April, 2013 we have seen some governors being impeached and others being threatened of the same action by their Members of County Assembly for failing to adhere to some policy and procedure in the management of county resources. In fact the Elgeyo Marakwet County Governor was under fire in April 2014 following a motion of his impeachment that was proposed by an MCA alleging that the Governor did not adhere to the laid down policies and procedures in employing county staff, tendering, revenue collection and revenue allocation among others as stipulated by the devolved government act. There is a lot of hue and cry from other counties concerning the same issues the latest being The Nyeri and Nairobi Governors who has been impeached by the County Assembly because of the same reasons. This leads to the big question 'are the internal controls used by the county governments in Kenya effective?' This study focused only on one county as a case research. Woof (2007) stated that the situation in organizations continues to prevail due to factors such as a complex structure whose complexity does not seem to be warranted, high turnover in the key accounting personnel and the unusual transactions do not take place according to General Accepted Accounting Principles (GAAP).The assets are not properly safeguarded, records are incomplete and in accurate thus providing inadequate and unreliable information in preparation of financial statements. Despite attempts by most organizations and governments to come up with good policies to streamline operations, through the initiative of reform program, less has been achieved and therefore there is likelihood that the organizations will continue performing poorly unless good financial and administrative practices are put in place. According to Saleemi (2009) sound internal control system helps an organization to prevent frauds, errors and minimize wastage. It ensures custody of assets and provides assurance to the management on the maintenance of adequate and reliable accounting records. My research therefore was aimed at establishing the factors affecting the effectiveness of internal control systems used in the county governments in Kenya by taking a case study of Elgeyo Marakwet County.

General objective

To find out the factors affecting the effectiveness of the internal control systems in the county governments in Kenya by taking a case of Elgeyo Marakwet County.

Specific objective

To establish how the types of internal control techniques used affect effectiveness of internal control systems the county government of Elgeyo Marakwet.

3. CONCEPTUAL FRAMEWORK

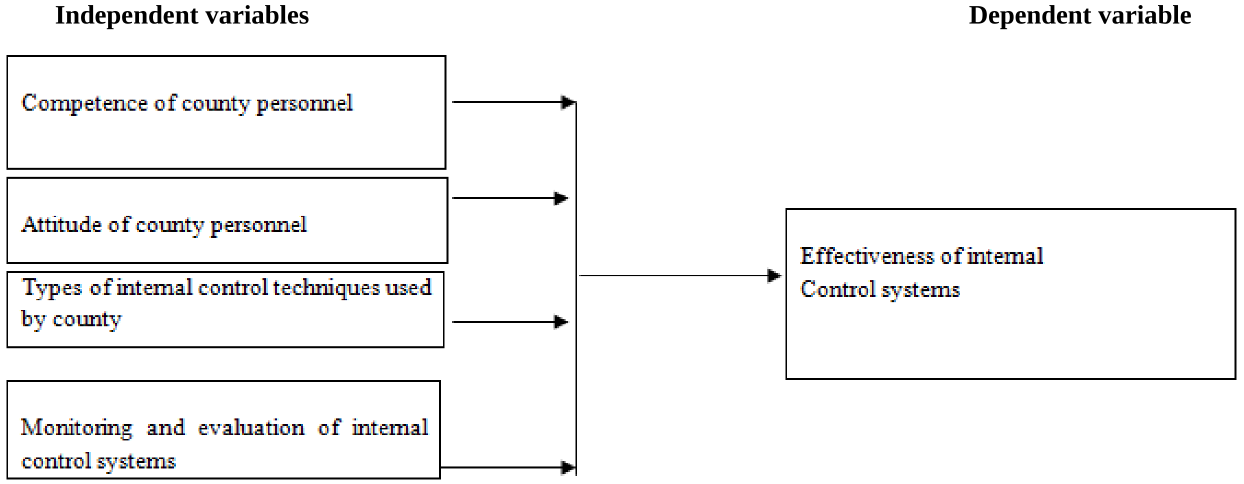

Figure 1: The conceptual framework

4. TYPES OF INTERNAL CONTROL TECHNIQUES USED BY THE COUNTY GOVERNMENT

Hamed (2009) noted that most internal controls can be classified as preventive or detective.

Preventive controls are designed to discourage errors or irregularities and they include such things as: a computer application which checks validity prevents the entry of an invalid account number, reading and understanding business Human Resource policies, such as Work Hours helps prevent violations of the Fair Labour Standards, and a manager's review of purchases for propriety and validity prior to approval prevents inappropriate expenditures.

Detective controls are designed to identify an error or irregularity after it has occurred. It includes things like: an exception report detects and lists incorrect or invalid entries or transactions, a comparison of validated Cash Receipt Vouchers to monthly financial statements will detect deposits posted to erroneous accounts, and the manager's review of long distance telephone charges will detect improper or personal calls that should not have been charged to the account among others. Effective internal control system operates when some specific procedures are adopted by the management. Internal Accounting Standards (IAS) categorizes internal control types as plans of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff arithmetic and accounting controls recording and record keeping supervision, authorization and approvals, vocation and rotation of duties, cost feasibility and routine automatic checks (snap checks).

Plan of Organization

(Saleemi, 2009) concludes that it is an organization chart which shows the organization structure. The purpose of drawing the organization plan is to show how it has been divided into departments and departments into sections and most important as to what responsibility and duties are assigned to each officer. Authority and responsibility are clearly defined. Employees perform their duties according to organizational plan .This plan allocates and defines responsibilities and identifies lines of reporting for all aspects of business operations. The plan of organization therefore is needed for effective internal control. (Spicer, and Pegler, 2008) referred organizational chart as a control over the company's personnel and is in a form of organization chart that defines who is who in the business. The organization plan therefore is a guiding tool to avoid duplication of effort, avoid conflicting duties, facilitate delegation of duties and harmonize operation in the organization. This further ensures that a chain of command and flow of authority is respected and adhered to.

Segregation of duties

(Mill champ, 2009) noted that the term segregation of duties is used these days for internal duties. One of the prime means of control is the separation of duties which would, if combined, enable open individual to record and process complete transaction. Segregation of duties reduces risks of internal manipulation of finances and increase the element of checking .Division of duties thus makes frauds more difficult to be committed because one transaction is completed by even more than two different employees. (Manasseh, 2009) indicated that any internal control system will only be strong if duties and responsibilities are segregated. The segregation of duties reduces the risk of frauds and errors and manipulation in the business accounting system. It also increases efficiency in company's operations due to specialization and facilitates supervision. The duties which must be segregated are recording, authorization, execution of duties, custody of company's assets and systems development for computer operations.

Control of documents

(Batra, 2002) states that control of documents involves the control of the company's sensitive documents e.g. receipts, cheques, local purchase order, debit and credit notes. These documents must be handled by a responsible officer and should be pre-numbered to ensure control and minimize misuse. They must be kept under key and lock and must be controlled from a central point for example the headquarters or any other convenient control point.

Physical control

(De Paula, 2000) noted that internal control also requires that asset of the business enterprise like plant and machinery equipment, motor vehicle, stock and cash to be kept safely. The access to these should be limited only to authorized personnel. The procedure designed and security measures taken for safeguarding assets should be adequate and comprehensive. Cash and stock should be under the custody of some reliable persons. Safeguarding of assets is also known as physical controls. The types of physical controls common to all organizations are employment of watchmen, alarm system, strong electrified gates, strong rooms and safer strong fences, security lights and use of dogs.

This means a process by which an asset is utilized for its intended purpose only and thus ensuring that it contributes a lot to the company before it can be disposed or written off. It also involves securing assets against misuse and physical attack. The objectives of physical controls are to ensure proper authorization of company assets, their maintenance, used only in the business, ensure that assets are properly accounted for and recorded properly and finally to ensure proper disposal of fixed assets.

Arithmetic and accounting controls

(Woolf, 2007) noted that these controls are aimed at ensuring the accuracy of transactions and also ensures proper recording of company transactions according to the Generally Accepted Accounting Principles (GAAP). He further noted that controls are usually boosted by the use of calculators and computers. He later suggested that while examining the systems of internal control, the auditor should consider the possibilities of collisions between close relatives working in related party or business, the possibility of collusion as well as combination of duties which would enable one to conceal irregularities, the extent to which employees in positions of trust especially those handling cash fail to take regular holidays and the possible conflict of interest in the case of responsible official having other business interest. (Saleemi, 2009) suggests that the recording of business transactions should be accurate and arithmetically correct .For this purpose some controls are introduced for example checking of totals, reconciliations, control accounts and trial balances. An effective internal control requires proper implementations of arithmetical and accounting controls. He concluded that the auditor has to examine the adequacy of the internal control system differently for different organizations. He said "it's worth nothing here that no set of rules for internal control can be or may be framed so as to be equally applicable to every concerned, as it would depend upon the nature, size and scope of each organization".

Supervision

(Manasseh, 2009) suggested that any system of control should include the supervision of day to day transactions by responsible officials and recording of these transactions e.g. working hours of employees recorded on clock cards should be checked or inspected by the supervisors. (Mill champ, 2009) noted that supervisors must be vigilant in their duties and ensure that people under their supervision perform their duties as per the laid down organization or company policies and this supervision must be done in a humane way so as to promote morale among the employees and avoid frustration among those under supervision. He further noted that the management should check the interim statements, budgetary control, and standard costing statements and also review departmental procedures and functions, thus the management therefore must be able to supervise the entire organization to ensure operational efficiency. Such type of supervision is done by higher authorities for example managing directors and internal auditors. Supervision basically means ensuring that employees work for hours expected and as per the laid down policies and procedures of the organization. The organization should therefore employ qualified and competent supervisors to ensure its success.

Authorization and approvals

(Woolf, 2007) said that all transactions must be authorized and approved by the right and responsible officer. This is aimed at preventing frauds and safeguarding of company's assets. It's also aimed at streamlining the flow of authorized activities for example purchases; invoices should be approved before payment is made to suppliers. Similarly the payment of wages should be approved before money is withdrawn from the bank. Internal control requires proper systems of authorization to prevent fraud incidences and to safeguard the company's assets. (De Paula, 2000) said that the authorization of sensitive assets should be in the hands of highly responsible people who cannot misuse such authority and professional ethics which they are bound to observe.

Vocation and rotation of duties

(Manasseh, 2009) said that organizations must give a compulsory leave especially to accounting staff who should not overstay their leave. This is aimed at checking the efficiency of officers in the organization to ensure that there is business continuity even in the absence of some staff members and avoid some staff being indispensable. Rotation also ensures staffs are conversant with all departmental activities of the organization.

Cost feasibility

(Barta, 2002) noted that the system to be installed must be within the limits affordable by the organization and its cost must not outweigh the benefits to be derived from such a system of internal control. Regarding cost feasibility the cost benefit analysis should be used to weigh the advantages and disadvantages of the undertaking.

Routine and Automatic Checks (snap checks)

(Spincer & Pegler, 2008) explains that internal check is an arrangement of staff duties whereby no one person is allowed to carry through a process and to record every aspect of a transaction to avoid collision between two or more persons thus preventing fraud and reducing errors to the minimum. (Barta, 2002) suggests that internal check refers to checks on the day to day transactions continuously as a part of the routine system whereby the work of one person is independently counter checked by another person with a view to detecting and correcting errors as early as possible and avoiding fraud. It includes matters such as the delegation and allocation of authority and the division of work, the method of recording transactions and the use of independently ascertained totals against which a large number of individual items can be proved. On the basis of the above definitions it can be concluded that the internal check means the arrangement of duties of the staff on scientific lines so that no one person is allowed to handle all the aspects of transactions. In such a system, work is so divided that no single person can authorize, conduct and record the transactions. Also the duties of the employees in the system are distributed in such a way that the work of one person is automatically checked by two or more independent persons. (Batra, 2002) further noted that the system of internal check in an organization is adopted with the following objectives: to minimize if not eliminate the chances of fraud, provide for early detection of errors so as to minimize lose caused by it to the owners of the business, to exercise moral pressure over staff, to shape the system of accounting so as to enable an easy balancing of books and prompt preparation of the final accounts and to ensure that all facts and transactions that affect the financial position of the organization are dully and promptly recorded in the books of prime entry and that entries made are afterwards properly dealt with in the ledgers so as to ensure their true effects are brought into record. In conclusion, it can be said that the system of internal check, is based on the principle of division of labor. It is certain that if the system of internal check is good and efficient, the possibilities of errors, fraud or irregularities are minimized and business can enjoy the benefit of division of labor and specialization.

Detection of error and frauds

(De Paula, 2000) noted that the impact of a sound internal control systems is to detect and prevent errors affecting the financial statements and hence financial performance of the enterprise. He also said that the reasonability of detecting and preventing errors and frauds rests with the management.

Reviewing the effectiveness of internal control

The institute of chartered accounts in England and Wales internal control; "guidance for directors on the combined code", came up with the process of reviewing effectiveness: Effective monitoring on continuous basis is an essential component of sound system of internal control. The board cannot, however, rely solely on embedded monitoring process within the company to discharge its responsibilities but should also undertake an annual assessment for the purpose of making its public statement on internal control. The board should define the process to be adopted for its review of effectiveness of internal control. They should encompass both the scope and frequency of the report it receive, reviews during the year and also the process of its annual assessment. The reports from the management to the board should, in relation to the areas covered by them, provide a balanced assessment of the significant risk and the effectiveness of the system of internal control in managing those risks. Any significant control weakness identified should be discussed in the report both including the impact that they have had, could have had all may have had on the company and the actions being taken to rectify them. The annual undertaking by the board should consider issues dealt with in the report review by it during the year together with and additional information necessary to ensure that the board has taken account of all significant

5. RESEARCH METHODOLOGY

Research Design

The research design adopted for this study was descriptive design.

Target population

The study was mainly focused on the staff in the sub-county administrative offices, Asembly and Governors' office in the County Government of Elgeyo Marakwet. Out of a total of 1300 staff members in the mentioned administrative offices only 50 were targeted who are heads and subordinates of various departments.

Sample size

Cluster sampling technique was used in this study. The target population in this research was 50 respondents mainly drawn from the county administrative offices. All the staff in the sub-county administrative offices working in different departments were targeted together with departments in the Governor's office.

Table : Sample size

County administrative office	Sample size
County headquarters (Governors' office)	10
Marakwet East Sub-county	10
Marakwet West Sub-county	10
Keiyo North Sub-county	10
Keiyo South Sub-county	10
TOTAL	**50**

Data analysis

The questionnaires were checked for completeness and consistency of information at the end of every field data collection day and before storage. Responses were categorized into various classes and the data from the completed questionnaires was recoded and entered into the computer using Microsoft excel for analysis. Descriptive statistics was used for analysing the data. This enabled the researcher to describe the aggregation of raw data in numerical terms. The descriptive statistics used includes the use of frequency distributions, measures of central tendency and measures of dispersion.

6. RESULTS AND DISCUSSION

Internal Control Devices In Use By The County

The study sought to establish if the kind of internal control devices used in the county affected their effectiveness and the response was as follows:

Table 1: Internal control devices

	Percentage	
	Yes	**No**
Personnel management	88	12
Authorization procedure	90	10
Segregation of duties	90	10
Physical restriction	57	43
Documentation/records retention	98	2
Monitoring operations	93	2

From table 1 above we deduce that over 86% of the respondents indicated that the county was using personnel management, authorization procedure, and segregation of duties, documentation/records retention and monitoring operations. However 43% of the respondents indicated that the county was not embracing physical restriction as a control device. Use of such control devices indicates effectiveness in internal control.

Frequency of use of procurement control systems

The researcher also sorted to know how often procurement control systems used in the county offices was and the response was as follows.

Table 2: Frequency of use of Procurement control systems

Internal control devices	More often	Often	Once in a while	Undecided	Never
	Percentage	**Percentage**	**Percentage**	**Percentage**	**Percentage**
Personnel management	53%	28%	12%	-	7%
Authorization procedure	37%	58%	-	-	5%
Segregation of duties	30%	56%	7%	1%	6%
Physical restriction	23%	30%	23%	10%	14%
Documentation & records retention	42%	42%	12%	2%	2%
Monitoring operations	40%	44%	12%	2%	2%

From table 2 above we see that 53% of respondents said that the county more often used personnel management, 28% said often, 12% said once in a while and 7% indicated that they never used personnel management as an internal control device. On authorization procedure, 37% said more often, 58% said often and 5% said the county never uses authorization procedure. On segregation of duties, 30% and 56% indicated more often and often respectively while 7%,1% and 6% indicated that they used segregation of duties once in a while, undecided and never used it respectively. Physical restriction was least used as indicated by 14% who said was never used, 10% undecided and 23% indicated was used once in a while.

Factors considered by the county government in adopting the existing internal controls

The researcher also gave an open ended question to the respondents to give their opinion on what they thought the county government considered in adopting the internal control systems in place. In common the respondents gave the following reasons: To improve on service delivery, comply with the laws and regulations from the national government, increase efficiency, increase accountability and transparency, minimize fraud and corruption and education level.

7. SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

Conversance with the internal control systems by the respondents.

The researcher sorted to know if the county staffs were conversant with the internal control systems and 93% of the respondents affirmed that they were conversant with it while a staggering 7% indicated that they were not conversant with the internal control systems. This indicates that the county has taken keen interest in training and making the staff aware of the internal control systems thus making the controls more effective.

Internal control devices in use by the county

The study sought to establish the kind of internal control devices used by the county. Results indicated that over 86% of the respondents said that the county was using personnel management, authorization procedure, and segregation of duties, documentation/records retention and monitoring operations. However 43% of the respondents indicated that the county was not embracing physical restriction as a control device. This shows that the staff are embracing and observing other control systems well apart from physical restriction.

Frequency of use of procurement control systems

The study sorted to know how often was procurement control systems used in the county offices. Results show that 53% of respondents said that the county more often used personnel management, 28% said often, 12% said once in a while and 7% indicated that they never used personnel management as an internal control device. On authorization procedure, 37% said more often, 58% said often and 5% said the county never uses authorization procedure. On segregation of duties, 30% and 56% indicated more often and often respectively while 7%, 1% and 6% indicated that they used segregation of duties once in a while, undecided and never used it respectively. Physical restriction was least used as indicated by 14% who said was never used, 10% undecided and 23% indicated was used once in a while. This shows that the use of procurement control is more effective.

Frequency of use of cash flow monitoring systems

From the results, more than 50% of the respondents indicated that they used substantive tests, internal company questionnaire, flow charts, walk through tests and snap checks in monitoring cash flow; once in a while, were undecided or never used it at all except for compliance tests where the respondents were 48%. This indicates that cash flow monitoring systems were not being used effectively.

Conclusions

The study revealed that internal control systems exist in the County and the staff are conversant with them. From the findings we can conclude that staff attitude towards internal control is the main factor affecting the effectiveness of internal control systems in Elgeyo Marakwet County. This is because 42% of the respondents said they took a long time to adjust to the new control systems, 7% indicated that the controls were punitive and another 7% said that the controls were not effective. This gives a total of 56% of respondents who were not comfortable with the internal control systems used by the county.

The internal control systems used in cash flow monitoring were not well adopted by the county indicated by an average of 63% of the respondents saying that they used them once in a while, never used them at all or were undecided about use of such systems.

Recommendations

The following recommendations are made based on findings from the results of the questionnaires:

- It was revealed that some personnel in the area of control do not fully understand how their activities relate to other units of the county. Therefore to improve on the staff attitude towards internal controls; trainings, programmes or seminars should be organized more often, where information would be given, showing how each area of work relates to each other and be informed that internal controls belongs to them and they should observe at all times to avoid loss of county resources.
- Manuals on policies and procedures should be made available to all employees at all time such that the management must take strong and appropriate actions against defaulting personnel depending on the breach, such as will prevent them from repeating such offences as well as serve as example to others.
- The county Government should strengthen internal audit department to enable it to put up structures and processes that can improve on monitoring and evaluation techniques used by the county. This will avoid reliance on the auditor general office to carry out annual audits on the counties that at times in the past as failed to provide actionable solutions.
- The auditor general just like controller of budget should establish an office within the county government for close monitoring of operations.

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