



EFFECT OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE IN INSURANCE INDUSTRY IN KENYA, A CASE STUDY OF INSURANCE COMPANY OF EAST AFRICA LION LIFE ASSURANCE LIMITED

Michael Lundi Nguni¹, Dr. Abdullah Ibrahim Ali²

¹Student - Jomo Kenyatta University of Agriculture and Technology

²Lecturer - Jomo Kenyatta University of Agriculture and Technology

ABSTRACT

This study looked at the important part of internal control systems they play in relation to financial performance, with a specific focus on ICEA Lion Life Assurance Company limited. Therefore, the close examination of financial internal control systems as to how they are related to the financial performance in insurance companies in Kenya was the sole purpose of this study, intentionally to establish if those internal controls resulted to any significant outcomes in improved financial performance. The study applied Reliability theory, Agency theory, Systems theory and Transaction cost economics theory. The qualitative as well as quantitative techniques were used to conduct the research; where questionnaires were used on a sample population of 43 respondents in gathering primary data for the study from ICEA Lion Life Assurance Company Limited's four branches, where structured closed ended questionnaires were used. Cronbach's Alpha was used to test reliability of the instrument's ability to produce coherent and stable measurements. A pilot study was conducted to pretest the validity and reliability of instruments for data collection. The research supervisor's opinion was obtained to ensure content validity of the research instrument. The test retest technique was used to estimate the reliability of the instruments. Cronbach's Alpha Coefficient of values greater or equal to 0.7 was obtained as an indicator of internal consistency. The data was analyzed using SPSS version 23 and presented using frequency tables to facilitate comparisons and conclusions based on the identified independent and dependent variable. This was to establish if there was a correlation between dependent variable; financial performance against independent variables: Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls. The study revealed the four components; Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls should always be available for the functioning of reliable internal control systems. Fraud, loss and misappropriation of organizations funds, are encouraged by fragile internal controls. The role of Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls explained 77.4%, leaving 22.6% unexplained. The P-value of 0.000 (Less than 0.05) implies that the model of financial performance was significant at the 95% confidence level. The researcher concluded that there is need to evaluate other factors which contribute to the improvement of financial performance in the insurance industry.

1.1 BACKGROUND OF THE STUDY

The security of the organizations assets, in the meantime, rests with the existence of a good internal control system which is reviewed from time to time giving reliability of financial statements which are crucial for decision making,(Morris, 2011). Compliance with regulations and the law in general is guaranteed by the presence of stable internal control systems, which guards the entity against loss or misappropriation of assets, misdirected funds, enhances decision making and fraud prevention.

To summarize it all, internal controls, is the presence of policies, standard procedures and documented processes, as instituted by an entity, through its organization structure, work flows and management information systems, for the attainment of its objectives(Daft, 2015). Failure to achieve organizations goals may be traced to the presence of weak internal controls, which were regarded as less critical in the existence of the business for an enforceable future. The organizations limited resources need to be guarded against the exposure of errors as a risk, misappropriations and fraud by taking mitigative measures. The managerial procedures that guarantee effectiveness and efficiency in the utilization of resources to achieve the entities goals is through the presence of internal controls, (Mawanda, 2011).

Internal control systems of an entity were likened to the human systems by Chen (2012), because they are spread widely in carrying and executing commands with a common business goal within the organizational structure. The intention of having a strong internal controls system, was to safeguard the assets of the entity against misuse, illegal acquisition and disposal, since they are a sequence of timely recognized events throughout the organizations lifetime, forming an important part of the entity's system,(Rodgers, 2015). It was however, the management's duty to ensure the objectives of the organization were realized by putting adequate mechanisms that drove the organization towards the right direction through monitoring and evaluation of controls. Moreover, accountability should form part of the organizations employee's duty in giving feedback on the effectiveness of the internal controls, for the logical assurance, where, management design controls and implement them at cost and benefits basis (Hall, 2012). No matter how well structured and operated, internal controls might not have provided absolute assurance that all organization objectives are met. Factors outside the controls or influence of management could have affected the entity's ability to attain all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control could affect meeting organization's objectives. Therefore, once in place, internal controls should be reviewed periodically to ensure that loopholes are sealed immediately. A study by Aziz (2012), showed that corporate risks could be managed and internal controls could be achieved by companies by complying with a legal framework that reinforced good governance, infused with such provisions. The target audience of this study were the officers of companies, regulators, corporate players and legislators. Njeri (2014), demonstrates that Stewardship and personal accountability were found to be the core elements of internal controls. The current recognition of the need for the enhanced individual accountability of persons is suggestive of medieval idea.

The Financial Accounting Standards Board (FASB), defined financial performance as the degree to which financial objectives are being accomplished, (Freeman, 2014). In addition, Sundem (2012), described financial performance as the act of performing financial activities. ICEA Lion Life Assurance Company limited financial performance takes into consideration, return on capital, return on Investments and return on capital employed. ICEA Lion Life Assurance Company limited, had a department responsible for reporting financial performance to the directors.

In 2016 the Company achieved a growth of 16% in total premium income and contributions to Kshs 9,526 million (Kshs 8,244 million in 2015). The commendable growth at the top-line was achieved through the acquisition of new business, improvement in retention ratios and high levels of business persistency (icealion.com, 2017). The Company's total assets grew from Kshs 50.8 billion to Kshs 57.8 billion recording a growth of 13.4% from the prior year. This growth is attributed to high growth in contributions and premiums as well as prudent management of mortality, expenses and investments. The actuarial surplus generated in 2016 was Kshs 10.922 billion (2015: Kshs 8.332 billion) representing an impressive growth of 31.1%. The Company declared competitive rates of interest and bonus to group and personal retirement schemes under management and to the "with profits" ordinary life policies as a consequence of the strong performance. The life fund grew in 2016 from Kshs 41.7 billion to Kshs 45.2 billion. This represents a growth of 8.4% and was achieved despite the poor performance experienced during the year at the Nairobi Securities Exchange (NSE) and reduced bond values (icealion.com, 2017).

With the rapid change of the competitive market, economic environment and customer preference, internal controls will easily assist the management in adopting through restructuring. In a similar manner, Gyebi (2013) notes that operational excellence achievement can only be recorded by having in place effective internal control systems which are an integral part of the management process, aligning its operations with the objectives, and the realization of its mission, by way of minimizing risks, reliability on accounting information (i.e., all transactions are recorded and that all recorded transactions are verifiable, properly classified, timely recorded, correctly summarized, posted properly valued).

Theoretically, increased financial performance in ICEA Lion Life Assurance Company and its management is made possible by effective internal control systems being a built-in part of the management process, (Radnor, 2013). Effective internal controls for financial performance calls for habitual review of the integrity and reliability of financial as well as operating information, controls assessment engaged in assets protection, and appraisal of organizations employees' conformity with management policies, procedures and relevant regulations. An excellent self-determining assessment of the management performance is guaranteed by internal controls in executing their mandate for better financial performance. Al-Matari (2014), gives a correlation of an effective internal control system with the entities achievements in meeting its financial performance goals. Further, organizations are obligated to train, and sensitize their staff on how to use these internal control systems, since its effectiveness is based on the competency and dependability of the people using it.

Most entities, with the critical contribution brought about by internal control systems, they are engraved in the governance structure not a regulatory requirement but, because it streamlines the operations thus saving costs and maximizing profits, which is of paramount importance in the insurance sector's financial performance recognition, (Armstrong, 2012). Appropriate controls also foster competition in the industry both in short and long term, as well as reduce the risks impact, or alleviate them totally. As an organization, accepting a certain degree of assurance as guaranteed by internal control systems through curtailing of uncertainties, is a sign of confidence in its own governance structure, thus embracing the belief that internal control systems have to be matched with the financial burden of carrying out such control procedures, and yet they have to guarantee a reasonable degree levels of confidence according to the magnitude of the risks taken (Sigilai, 2017). Following the extensive evaluation of the importance of internal controls, we can therefore, conclude that the ultimate purpose of internal controls is to assist an entity accomplish its mission, as well as uphold order, in their operations, creating quality goods and services as per the organization's mission, protecting resources against loss owing to fraud,

waste, misuse, negligence, and errors(Koitaba, 2013). Finally, with the demanding responsibilities imposed by stakeholders to the management, internal controls ensure a lean and effective governance structure which focuses on core values and delivery of the organizations core mandate to satisfy its customers, command a big market share and maximize the owners wealth through accountability and an informed decision making process.

2.0 STATEMENT OF THE PROBLEM

Kenya saw the collapse of insurance companies in the recent past, and a stagnated industry for a long time, a situation that was attributed to weak internal controls in the industry (Associationn, 2014). The challenge of decreasing financial performance in Organizations cuts across all sectors and its one of those that could be eliminated, if management came up with clear strategies aligned to their goals. The component of monitoring and evaluation in the process of implementing their strategies could be given priority in order to ensure compliance. This assurance could be obtained by instituting internal audits that evaluatethe internal controls from time to time, advising management on the right steps to take when there are slight deviations from the original plan, which may lead to missed financial performance targets, and fraudulent claims as a result of corruption in the insurance sector.(Reurink, 2018).

However, recovery of lost funds in insurance companies which led to the collapse of many of them, had been a difficult task for authorities due to weak recovery mechanisms, and for this reason, it was important to ensure that there were strong internal controls to eliminate any risks that the organizations were being exposed to. The impact of internal controls in relation to generation of income was studied by,Hannah (2013),in the University of Nairobi Enterprises and Services limited (UNES) summarized that, internal control systems must be in line with the achievable goals of an organization, enhancing effectiveness and efficiency specifically during the capturing of data. Njui (2012), concluded that risk management and internal control systems were paramount, after carrying out a research of audit and internal controls effectiveness in governance promotion in Kenya. This research specifically looked at the Kenya's insurance industry and the effect that the internal controls have over financial performance, and sought to answer the question about the relationship between internal control systems and financial performanceby insurance companies in Kenya focusing on ICEA Lion Life Assurance Company Ltd.

3.0 OBJECTIVES OF THE STUDY

1. To find out the effect of detective internal controlson financial performance of ICEA Lion Life Assurance Ltd.
2. To find out the effect of preventive internal controls on financial performance of ICEA Lion Life Assurance Ltd.
3. To find out the effect of corrective internal controlson financial performance of ICEA Lion Life Assurance Ltd.
4. To find out the effect of monitoring internal controlson financial performance of ICEA Lion Life Assurance Ltd.

4.0 THE RESEARCH HYPOTHESES

The following hypotheses were formulated for the study:

H₀₁: Detective internal controls do not have an effecton financial performance in ICEA Lion Life Assurance Ltd.

H₀₂: Preventive internal controls do nothave an effect on financial performance in ICEA Lion Life Assurance Ltd.

H₀₃: Corrective internal controls do not have an effect on financial performance in ICEA Lion Life Assurance Ltd.

H0₄: Monitoring internal controls do not have an effect on financial performance in ICEA Lion Life Assurance Ltd.

5.0 LITERATURE REVIEW

5.1 Theoretical Review

5.1.1 Reliability Theory

Reliability theory simply described the probability of a system completing its expected function during an interval, (Thoft-Cristensen, 2012). It was originally a tool used to help nineteenth century maritime insurance and life insurance companies in computing profitable rates to charge their customers. According to the reliability theory, an internal controls system comprised of components that were interrelated and for each component, there needed to be a defined measure of success, (Flood, 2013). As such, the state of a component was determined by whether the component was successful or not successful.

The reliability of a component was defined as the probability of the component being found in the success state, (Song, 2012). In addition, the reliability of the entire internal controls system was a binary combination with two possible values, success and failure, (Shmuelof, 2012). This study considered the part of the reliability theory which related the internal controls system to component reliabilities. The tractability of reliability theory to the evaluation and design of internal controls system had appeared in the professional literature but no applications had been reported that drew upon the substantial power of the theory of reliability, (Parahoo, 2014).

The two potential users of the Reliability theory were the external auditor and organization management. Internal control systems had a primary purpose of assessment and control of risks; that a material error was not to be prevented or detected on a timely basis by the system leaving to losses, (Tunji, 2013). Weak internal control systems resulted in more substantive work and hence greater cost. The determination of the "weakness" of any internal controls system is primarily judgmental. Upon the formulation of the process and system reliability estimates, comparison with data from the organizations past performances or other firms may have provided a more solid basis for judgment of the impact of an internal controls system on the firms' income risk and hence provided for more rational allocation of the auditor's time and effort, (Libby, 2017).

One of the primary advantages of the reliability theory was its close relationship to the auditor's needs regarding understanding the internal controls system and control risk assessment, (Parker, 2012). Recent developments increased the value to management of objective methodologies for the evaluation of internal control systems, (Menezes, 2012). Firm managers were therefore required to assure the accuracy of these systems. The process of evaluation of the internal controls system by both management and external auditors was judgmental in nature. However, the few attempts at modeling internal control systems had not been implemented by firms due to the lack of realism, difficulty of modeling behavioral systems, lack of cost effectiveness, and lack of understanding by practitioners, (Ter Bogt, 2012).

5.1.2 Agency Theory

Van (2012), explained this theory broadly and its limitations, as a relationship between one party (principal) and another (agent), where the principal is bound by the actions of the agent. The agent represented the principal in all transactions and in some cases conflict of interest arose where the agent did not act in favor of the principal.

The principal, delegated work to the agent who acted on their behalf, but the relationship might encounter a number of setbacks particularly when the agent did not act on the utmost good faith (Fayezi, 2012). In organizations, the management acted as the agents of the shareholders, and this could have led to a number of problems including, power misuse by management (agents), failure to take adequate measures to mitigate risks that the company is exposed to, and keeping crucial information that the shareholders (principal) may have needed to make critical decisions. Following the magnitude of mistrusts by principals against the agents, a certain level of checks and balances must be instituted to govern the agent's behavior, (Pepper, 2015). The shareholders had always questioned management reports which could turn out to be misleading by way of covering fraud or containing erroneous information or even not being in line with the law. For this reason, engaging the services of auditors, appointed by the shareholders, would bring back some levels of confidence. This theory avails a concrete structure for internal auditing function (Endaya, 2013).

5.1.3 Systems Theory

Systems theory described how systems theory, particularly "hard" and "soft" systems modelling, could provide a framework for the study of internal control and auditing inside organizations, (Chai, 2012). Useful empirical research and case study work can be carried out using "hard" and "soft" systems modelling. Such research could make a positive contribution to the body of knowledge concerning the nature of the internal controls and the practice of internal audit in organizations, (Heras-Saizarbitoria, 2013).

The management could ensure that the organization as a system had interrelated subsystems that would guarantee uninterrupted operations resulting from proper communication within the organization and reliable feedback which would enable the management take necessary steps to improve areas that were weak by way of reinforcing the existing controls or even introducing new ones (Yan, 2012).

5.1.4 Transaction Cost Economics Theory

Transaction cost economics theory aimed at factoring the cost of each event in an organization, and its overall effect in profitability, and it had been explained by Williamson as an arrangement of governance to ascertain the impact rather than a production function (Spiller, 2013). This theory was anchored on the idea of reasonableness by decision makers and possible conflict by individuals.

Biggemann (2012), indicated that, TCE laid down a platform for either the parties to enter into a transactional or contractual relationship, within the company or with other firms, where decisions were based on the cost benefit analysis of each transaction. TCE seemed to imply that an internal auditor had an upper hand in giving proper advice to the management than an external auditor, (Masika, 2013).

6.0 Conceptual Framework

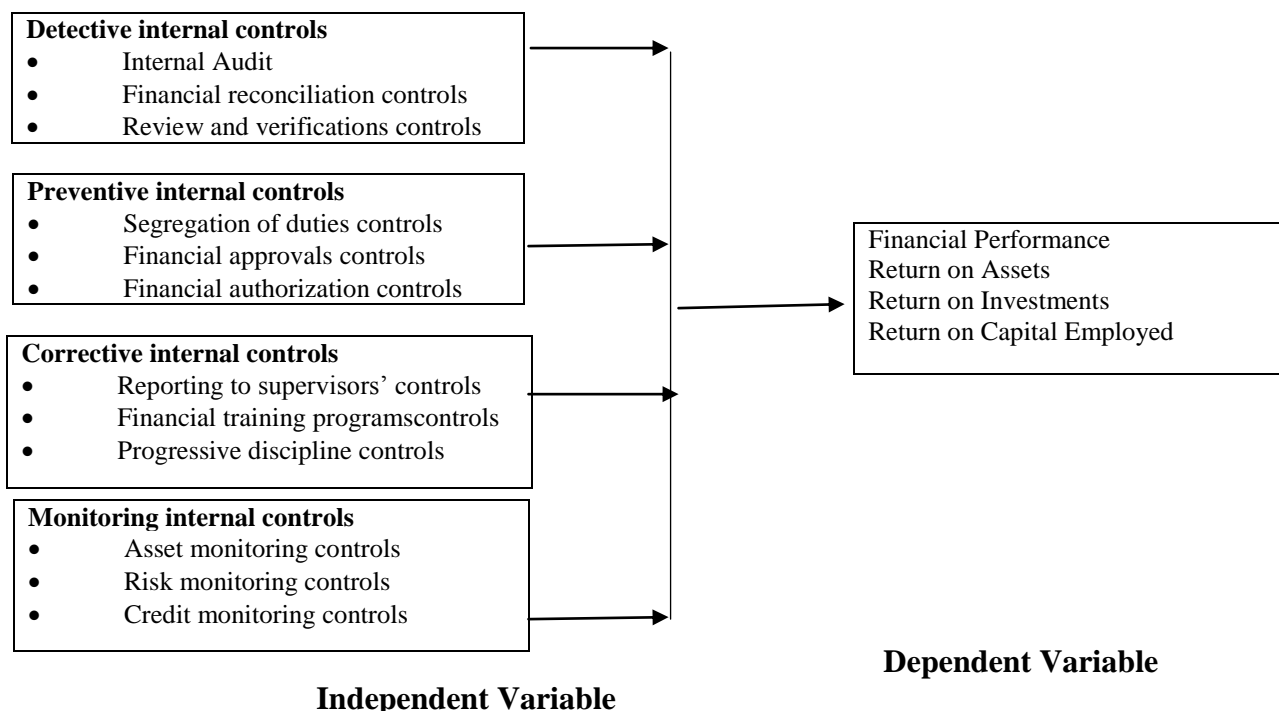


Figure1: The Conceptual Framework

6.0 REVIEW OF LITERATURE ON VARIABLES

6.1.1 Detective Internal Controls

Detective controls were internal controls designed to identify problems that already existed, (Steinbart P. J., 2012). Audits, both internal and external, were an example of detective controls. Reconciliation, for bank accounts, petty cash accounts, was another detective control activity. Thirdly, review and verification, for example refunds, or conducting physical inventory were all examples of detective controls. Detective controls are often required in combination with other types of internal controls to provide sufficient protection, (Stephens, 2013).

According to Christ (2012), detective control is an accounting term that refers to a type of internal control intended to find problems within a company's processes. Detective control may be employed in accordance with many different goals, such as quality control, fraud prevention, and legal compliance, (Sadiq, 2015). In small firms, internal controls can often be implemented simply through management supervision. At large firms, however, a more elaborate system of internal audits and other formalized safeguards is often required to adequately control the company's operations, (Fraser, 2016).

Accounting controls of all types are designed to help companies comply with accounting rules and regulations, (Lawson, 2013). The presence of adequate internal controls is important to investors as an assurance that financial and other disclosures are accurate, and that they are not being defrauded by managers or employees, (Tunji, 2013).

6.1.2 Preventive Internal Controls

Preventive Controls were designed to discourage errors or irregularities from occurring. They were proactive controls that helped to ensure departmental objectives were being met, (Tunji, 2013). Examples of preventive controls were: Segregation of duties among different people to reduce the risk of error or inappropriate action. Responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) were

divided. Many preventive controls were based on the concept of separating duties, including prohibiting the same person from conducting related transactions such as initiating and recording transactions; making purchases and approving payments; ordering and accepting inventory; approving vendors and making payments; receiving bills and approving payments; and authorizing returns and issuing refunds, (Jans, 2013). Payroll preparation and distribution duties and approving, writing and signing checks ought to also be done by different people. Internal controls built around the concept of authorization, approval and verification included requiring supervisory review and approval of payroll information before disbursement, requiring interdepartmental dual authorization of payroll data by accounting and human resources departments and requiring prior approval of credit customers, vendors and purchases, (Putra, 2014).

Approvals, Authorizations, and Verifications: Management authorized employees to perform certain activities and to execute certain transactions within limited parameters,(Groomer, 2018). In addition, management specified those activities or transactions that needed supervisory approval before they were performed or executed by employees. A supervisor's approval (manual or electronic) implied that he or she had verified and validated that the activity or transaction conformed to established policies and procedures, (Radhouani, 2014).

6.1.3 Corrective Internal Controls

Corrective internal controls were put into place to correct any errors that were found by the detective internal controls, (Aramide S. F., 2015). When an error was made, employees followed whatever procedures had been put into place to correct the error, such as reporting the problem to a supervisor, (Buchanan, 2013). Training programs and progressive discipline for errors are other examples of corrective internal controls. A common error many employers make when administering progressive discipline is to fail to include the consequences of further unacceptable conduct or behavior at every stage of the process,(Senge, 2014).

Corrective controls strive to remedy problems that can be systematically corrected and are put in place because of regulatory requirements, (Ollila, 2012). Corrective controls help mitigate damage once a risk has materialized. An organization can document its policies and procedures, enforcing them by means of warnings and employee termination when appropriate. Heller (2012), states that when managers wisely back up data, they can restore a functioning system in the event of a crash. If a disaster strikes, business recovery can take place when an effective continuity and disaster management plan is in place and followed, (Sahebjamnia, 2015).

6.1.4 Monitoring Internal Controls

Fraud may be perpetrated in large companies, small family-run businesses, nonprofits, and governmental entities at any time. Management developed strong control by implementing effective control activities, but all too often missed the opportunity to ensure those controls worked effectively and efficiently as changes occurred in their organizations, (Sears, 2013).Internal controls fail when they aren't updated with organizational change, (Skærbæk, 2014). When monitoring control effectiveness is done regularly, organizations remain safe, however, deficiencies emerge when controls don't keep up with organizational change. Monitoring allowsto make the necessary adjustments for proper risk mitigation.

Operations and risk management environments, and their supporting internal control structures, change with new staffing, technology updates, or evolving organizational polices, (Tate, 2012). The COSO Framework stated that "monitoring ensured that internal control continued to operate effectively." Monitoring ought to be performed through ongoing and separate evaluations of the internal control components and the related communications that came from those evaluations,

(Skærbæk, 2014). Key members of management and governance teams needed to set a precedent that evaluated internal controls, not only to mitigate risks but to ensure controls were working effectively. Security of Assets ensured controlled or restricted access to equipment, inventories, securities, cash and other assets, with periodical counting and compared to amounts shown on control records.

Prioritization of risks was key, executing ongoing monitoring and separate evaluations to monitor those riskshad to be put in place, (Petit, 2012). Not every control process could be evaluated each year, but completing a proper risk assessment and starting with those more significant areas were essential when developing a proper monitoring plan. It is also important to designate the appropriate individuals to develop monitoring procedures and ensure they were properly executed, (Kirchmer, 2012). Monitoring was a continuous cycle where a single control process would go through evaluations several times over the course of a monitoring cycle to revalidate the controls or set a new baseline. The most significant information that comes out of each cycle were those deficiencies, or areas of improvement, that an organization can take to the change management process. Change management included the design and implementation of an updated control system to improve the efficiency or effectiveness of a control activity. Each time change management occurred, a new baseline was set to create the most effective and efficient control for the organization, (Porter, 2019).

Organizations should consider whether it is doing everything it can to ensure that its customers are paying on time, and therefore, ought to put in place proper procedures, which enable the early identification of potential bad debts, as such, getting paid on time is to having an effective credit management policy, (Teece, 2016). Banerjee(2015), explained that, an important factor to consider is the level of profitability inherent on sales, thus, firms with low gross profit margin cannot afford significant bad debts, and therefore need to have vigorous risk assessment procedures. The importance of credit monitoring control was to help in achieving full employment and accelerated growth with stability in the organization, (Summers, 2014). Credit monitoring controls therefore create a clear credit control process, ensures research on customers, maintain a positive relationship with customers, invoice quickly and accurately, encourage early payment, and compile a watch list that necessitates necessary action, (Verhoef, 2013).

6.1.5 Financial Performance

The Financial Accounting Standards Board (FASB), defined financial performance as the degree to which financial objectives are being accomplished,(Achim, 2014). In addition, Barnett(2012), described financial performance as the act of performing financial activities. Performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. Financial performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability,(Tang, 2012).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period,(Vasi, 2012). The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders. The income statement provides a summary of operations for the entire year, while analysts can find information about long-term vs. short-term debt on the balance sheet. They can also find information about what kind of assets the company owns and what percentage of assets are financed with liabilities against stockholders' equity. The different stakeholders in a company, including trade creditors, bondholders, investors, employees, and

management, have their own interest in tracking the financial performance of a company,(Oikonomou, 2014).

ICEA Lion Life Assurance Company limited, had a department responsible for reporting financial performance to the directors.ICEA Lion Life Assurance Company limited financial performance takes into consideration, return on capital, return on investments and return on capital employed among other financial performance measures.Return on capital (ROC) is defined by Khanam(2014) as profitability ratio that measures the return that an investment generates for capital contributors, i.e. bondholders and stockholders. Return on capital indicates how effective a company is at turning capital into profits, while Return on investment (ROI) is a ratio between net profit (over a period) and cost of investment (resulting from an investment of some resources at a point in time, used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments,(Tayeh, 2015). Finally, Return on capital employed (ROCE) is a financial ratio that measures how well a company is generating profits from its capital,(Owolabi, 2012).

7.0 RESEARCH METHODOLOGY

7.1 Research Design

Research design referred to the way the study was planned, that is, the method used to carry out the research, (Ormston, 2014). The role of a research plan is to ensure that necessary information is in accordance with the handy issue of research. Basically quantified, it is the outline, a design for the study which directs the gathering and breakdown of data,(Groove, 2013).This study took up a descriptive cross-sectional research design, which in many cases was appropriate where the problem was particularly defined with convincing issues to be described by the targeted persons who were perceived to have an understanding of the problem,(Rousseau, 2011). It was a cost-effective tool, giving the researcher adequate information from the identified respondents within a short period of time.

7.2 Target Population

Population meant a group of persons, things, organizations or event identified for a particular study,(Carper, 2017).The target population of this study was 48 officers drawn from ICEA Lion Life Assurance Company limited: targeting managers and accountants. These officers represented the analysis unit in the study as seen in Table 1.

Table 1: Target Population

Stratum	Target population	Percentage
ICEA Lion Life Assurance Company	48	100
TOTALS	48	100

7.3 Sample size and Sampling Technique

The determination of the size of the sample was the process of selecting the number of events to consider them as samples,(Marshall, 2013). The size of the sample was a central feature of an empirical study, in which the purpose was to make inferences about a population from a sample,(Baltar, 2012). The total sample size for this study was obtained using the formula developed by Cooper and Schinder(Cooper, 2018).The sample size was 43.

$$n = N/1 + N(\alpha)^2$$

Where:

n = Sample size

N = Sample frame

α = Margin of error (0.05%)

Simple Random Sampling technique uses randomization to make sure that every element of the population got an equal chance to be part of the selected sample.

Table 2: Sample Size

Stratum	Category	of	Sample size
	Respondent		
ICEA	Lion	Life	Accountants
	Assurance	Company	Managers
TOTALS			43

7.4 Data Collection Instruments

This study will use both the primary and secondary tools of data collection, (Johnston, 2017). The primary tool was by way of administering questionnaires to the identified managers and accountants, because the study required specific answers which captured specific opinions and attitude from the respondents, while the secondary data was obtained from the already published literature, (Sarstedt, 2014).

7.5 Data Analysis and Presentation

Statistical Package for Social Sciences (SPSS Version 23.0) program was used to analyze the data, quantitative and regression analysis were used as data analysis tools, and the collected data was taken through a variety of models to determine the effect of internal controls on financial performance in insurance companies in Kenya.

The multivariate regression analysis was applied in the study in determining the association between the independent variables and the dependent variable, which took the form:

$$R = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where,

$\beta_0, \beta_1, \beta_2, \beta_3,$ and β_4 are the regression co-efficient

R - Financial performance

X_1 - Detective internal controls

X_2 - Preventive internal controls

X_3 - Corrective internal controls

X_4 - Monitoring internal controls = Error term

8.0 DATA ANALYSIS AND RESULTS

8.1 Descriptive Analysis

8.1.1 Detective Internal Controls

The first objective of the study was to find out the effect of detective internal controls on financial performance of insurance companies in Kenya. On a five point Likert scale of 1-5 where; 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree. The respondents were asked to state the extent to which detective internal controls affect financial performance in insurance companies in Kenya. The results findings were as shown in table 4.7. As indicated in the table, the results findings showed that audits (both external and internal) are important to ensure organizations meet their financial performance targets had (mean=4.64, SD=.597). On this, Steinbart P. J. (2012), opines that the level of detective internal controls of any organization has a direct effect on financial performance. The statement on whether the reconciliations are important had a (mean=4.35, SD= .785).

Respondents were further asked if consistent reviews of policies and procedures could help an organization's internal controls system remain effective and efficient to improve financial performance, which respondents strongly agreed with a (mean=4.51, SD=.600). Finally, with a,

(mean=4.44, SD=.635), respondents were asked whether verifications of the organization's transactions was an important element of internal controls towards improved financial performance. The views respondents concurs with Eccles (2014), observations that verifications of the organization's transactions is an important element of internal controls towards improved financial performance.

Table 3: Detective Internal Controls

N	Mean	SD	
Audits (both external and internal) are important to ensure organizations meet their financial performance targets	38	4.64	.597
Reconciliations of business transactions are an important practice to assist an organization meets financial performance targets	38	4.35	.785
Consistent reviews of policies and procedures can help an organization's internal controls system remain effective and efficient to improve financial performance	38	4.51	.600
Verifications of the organization's transactions is an important element of internal controls towards improved financial performance	38	4.44	.635
Overall Mean		4.49	

8.1.2 Preventive Internal Controls

The second objective of the study was to examine the effect of preventive internal controls on financial performance of insurance companies in Kenya. On a five point Likert scale of 1-5 where 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree. The respondents were asked to state the extent to which preventive internal controls have on financial performance of insurance companies in Kenya. The results were as shown in table 4.8. The table shows that the responses had an overall mean score of 3.96. This implies that preventive internal controls have a greater effect on financial performance of insurance companies in Kenya.

As indicated, the statement that segregation of duties is a strong element of internal controls for higher financial performance in an organization had a (mean=3.38, SD= .321). This explains why the organization is struggling to cope with lost financial performance. On whether approvals of all operations are fundamental controls and their absence may lead to collapse of the organization had a (mean=4.18, SD= .505) had a (mean=3.55, SD= .558). Finally, on whether physical checks and restricted access to organizations assets guarantees steady operations for improved financial performance had a (mean= 4.73, SD= .445).

Table 4: Preventive Internal Controls

	N	Mean	SD
Segregation of duties is a strong element of internal controls for higher financial performance in an organization	38	3.38	.321
Approvals of all operations are fundamental controls and their absence may lead to collapse of the organization	38	4.18	.505
Authorizations at all organization levels is a sign of strong controls to safeguard company assets	38	3.55	.558
Physical checks and restricted access to organizations assets guarantees steady operations for improved financial performance	38	4.73	.445
Overall Mean		3.96	

8.1.3 Corrective Internal Controls

The third objective of the study was to determine the effect of corrective internal controls on financial performance of insurance companies in Kenya. On a five point Likert scale of 1-5 where; 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree. The respondents were requested to state the extent to which corrective internal controls had on financial performance of insurance companies in Kenya. The results were as shown in table 5.

Referring on table 5, respondents strongly agreed as indicated with a (mean=4.08, SD=.726) that absence of a reporting culture of critical information to supervisors is a sign of a weak internal controls that may lead to poor financial performance. This concurs with Hooghiemstra(2015), views that a reporting culture of critical information to supervisors must be nurtured in the organization. In agreement with this, Mishra (2014) adds that effective communication clarifies the new tasks and responsibilities towards achieving set goals and objectives. On whether training programs empower employees for better performance leading to improved financial performance, had a (mean= 4.38, SD=.709). The statement that timely warnings to employees are part of progressive discipline for errors and can help tame evil practices that may create loopholes for fraud, had a (mean=4.55, SD=.623). Finally, on whether management clear procedure for handling staff issues had been consistent with the human resource policies and the law, had a (mean=4.72, SD=.453), which was in line with the findings of John Pruce (2014).

Table 5: Corrective Internal Controls

	N	Mean	SD
Absence of a reporting culture of critical information to supervisors is a sign of a weak internal controls that may lead to poor financial performance	38	4.08	.726
Training programs empower employees for better performance leading to improved financial performance	38	4.38	.709
Timely warnings to employees are part of progressive discipline for errors and can help tame evil practices that may create loopholes for fraud	38	4.55	.623
Management clear procedure for handling staff issues has been consistent with the human resource policies and the law	38	4.72	.453
Overall Mean		4.43	

8.1.4 Monitoring Internal Controls

The fourth objective of the study was to examine the effect of monitoring internal controls on financial performance of insurance companies in Kenya. On a five-point Likert scale of 1-5 where; 1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree, and 5=Strongly Agree. The respondents were requested to state the extent to which monitoring internal controls had on financial performance of insurance companies in Kenya. The results were as shown in table 6. The table shows that the responses had an overall mean score of 4.50. This implied that monitoring internal controls had a greater effect on financial performance of insurance companies in Kenya.

Referring to table 6 below, respondents agreed with a statement that Organizations management style, corporate culture, values, philosophy and operating style, organizational structure, and human resources policies and procedures guide the day to day activities. This was demonstrated with a (mean=4.63, SD=.572). In Kotter (2014) views, failure to match structural organization design to the operations under control is the reason why funds are lost. With a (mean= 4.12, SD=.693) respondents agreed that management put in place a risk management department for the assessment, identification, mitigation and evaluation of risks. On whether the management put in place policies, procedures, techniques, and mechanisms as control activities to help reduce the identified risks, recorded a (mean=4.42, SD= .540). In (Pollitt, 2013), observed that some operations procedures and management functions may negatively influence financial performance collection. Finally, the statement that the external auditor could rely on the quality of the internal audit of the organization recorded a (mean=4.82, SD=.389), in line with the findings of (Bame-Aldred, 2012).

Table 6 Monitoring Internal Controls

	N	Mean	SD
Organizations management style, corporate culture, values, philosophy and operating style, organizational structure, and human resources policies and procedures guide the day to day activities ³⁸		4.63	.572
Management put in place a risk management department for the assessment, identification, mitigation and evaluation of risks	38	4.12	.693
Management put in place policies, procedures, techniques, and mechanisms as control activities to help reduce the identified risks	38	4.42	.540
The external auditor can rely on the quality of the internal audit of the organization	38	4.82	.389
Overall mean		4.5	

8.1.5 Financial performance

Examining the findings of financial performance as shown in table 7, on whether the organization efficiently generates earnings from their economic resources or assets on their balance sheet as determined by return on capital, a mean score of (mean=4.05, SD=.227) was achieved. In agreement with this, Nartisa (2012), noted that “the survival of a firm is largely determined by how successful that organization has executed its controls”. With a mean score (mean=4.95, SD=.422) respondents were in agreement that the organization’s internal controls system assured the use of return on investment to measure, per period, rates of return on money invested in the organization and compare different investments within its portfolio of investments. It was further agreed as indicated with a mean of (mean=4.49, SD=.502) that financial statements for the organization are subjected to the use of return on capital employed to measure the company's profitability and the efficiency with which its capital is used. Finally, on whether financial analysis helps to highlight the facts and relationships concerning managerial performance, corporate efficiency, financial strength and weaknesses and credit worthiness of the company, respondents agreed with a (mean = 4.54, SD = .513).

Table 7: Financial Performance

	N	Mean	Std. Deviation
The management efficiently generates earnings from their economic resources or assets on their balance sheet as determined by return on capital	38	4.05	.227
The management uses return on investment to measure, per period, rates of return on money invested in the organization and compare different investments within its portfolio of investments	38	4.95	.422
The management uses return on capital employed to measure the company's profitability and the efficiency with which its capital is used	38	4.49	.502
Financial analysis helps to highlight the facts and relationships concerning managerial performance, corporate efficiency, financial strength and weaknesses and credit worthiness of the company	38	4.54	.513
Overall Mean		4.53	

8.2 Inferential Statistics

8.2.1 Coefficient of Correlation

To establish the strength of the relationship between independent variables and dependent variable, coefficient correlation was computed by use of Pearson Bivariate correlation. Based on Vaz (2013) observation, the coefficient correlation is assumed to be linear with its coefficient correlation ranging from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship).

Table 8: Correlations

	Financial	Detective	Preventive	Corrective	Monitoring
Performance					
Financial	1				
Performance					
Sig. (2-tailed)	.945**	1			
Detective					
Sig. (2-tailed)	.000				
Preventive					
Sig. (2-tailed)	.887**	.944**	1		
Corrective					
Sig. (2-tailed)	.932**	.954**	.951**	1	
Monitoring					
Sig. (2-tailed)	.882**	.918**	.946**	.949**	1

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

In trying to establish the relationship between the study variables, the study used the Karl Pearson's coefficient of correlation (r) as indicated in Table 8. The study findings show that there was a positive correlation between the independent variables; Detective internal controls, Preventive internal controls, Corrective internal controls and monitoring internal controls with financial performance. The analysis indicated that Pearson r data analysis yielded a positive correlation coefficient r equal to 0.945, 0.887, 0.932 and 0.882 for Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls respectively. This shows that there is a positive and significant relationship between the independent variables and dependent variable.

8.2.2 Coefficient of Determination (R^2)

To ascertain the research model, factors analysis was conducted. The independent variables were subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between independent variables (Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls, and the dependent variable (Financial performance).

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954a	.910	.906	.31392

Predictors: (Constant), Monitoring controls, Corrective controls, Preventive controls and Detective controls.

The model explains 91% of the variance (Adjusted R Square = 0.906 on Financial performance. This indicates that there are factors also other than the four proposed in this model which can be used to determine Financial performance. However, this is still considered to be a good model based on Lakens (2013), who argued that in social science, a model is acceptable if it's adjusted

R square value ranges from 0.10 to 0.20. Therefore, as indicated in the table 4.13, 91% of the relationship is explained by the identified four factors namely; Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls. The rest 9% is explained by other factors not studied in this research.

8.2.3 Analysis of Variance (ANOVA)

The ANOVA result displays the sum of squares due to regression and due to residuals. It also displays the F ratio value and its significance. The F depicts the significance or the fitness of the regression model. It indicates how significant the predictors can predict the dependent variable. The ANOVA are shown in table 10. The result findings shows that the Regression Model is significant ($F = 83.226$, $p = 0.000$). The significance of a regression model is considered significant if its p-value is less or equal to 0.05. In table 10, the regression model established with its p-value of 0.000 significance is less than 0.05. This indicates that the regression model was statistically significant in predicting the factors affecting financial performance in insurance companies in Kenya. Since F is greater than F critical value, it shows that the overall model was significant and that Detective internal controls, Preventive internal controls, Corrective internal controls and Monitoring internal controls affect financial performance in insurance companies in Kenya.

Table 10: ANOVA
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	89.552	4	22.388	83.226	.000 ^b
	Residual	8.869	33	0.269		
	Total	98.421	37			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Monitoring Controls, Corrective Controls, Preventive Controls, Detective Controls

Table 11: Coefficient
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	10.475	.617		.16.968	.000
	Detective Controls	.272	.048	.496	5.666	.000
	Preventive Controls	.325	.089	.079	4.393	.000
	Corrective Controls	.352	.073	.513	4.822	.004
	Monitoring Controls	.334	.077	.026	4.337	.000

a. Dependent Variable: Financial Performance

Dependent Variable: Financial performance

The established model for the study was:

$$Y = 10.475 + 0.272X_1 + 0.325X_2 + 0.352X_3 + 0.334X_4$$

Where: Y= Financial performance in insurance companies in Kenya, X_1 = Detective controls; X_2 = Preventive controls, X_3 = Corrective controls; X_4 = Monitoring controls.

Table 4.15 presents the Regression Coefficients and the Significance of the Regressions (p-value). From the regression result, the coefficient of Detective controls is 0.272. This implies that one unit change in Detective controls increases the chances of financial performance by 0.272 units holding other factors constant.

The coefficient of Preventive controls is 0.325, thus a one unit increase in Preventive controls would lead to 0.325 increases in financial performance, holding other factors constant.

The coefficient of Corrective controls is 0.352. The result implied that one unit increase in Corrective controls led to increase in financial performance by 0.352 units.

And the coefficient for Monitoring controls was 0.334. This implied that a unit increase in Monitoring controls would lead to an increase in financial performance by 0.334 units.

4.8 Hypothesis Testing

Referring to table 4.15, the predictor coefficient is shown to be statistically significant since their p-values are less than the common alpha level 0.05

Hypothesis one

H_0 = Detective internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd

H_1 = Detective internal controls have effect on financial performance in ICEA Lion Life Assurance Ltd

$B_1 \neq 0$

In relation to the variable Detective internal controls, the results in table 4.15 supported by regression analysis t-value of 5.666 which is greater than the critical value 2.0 and p-value of 0.00 at 95% level of significance which is less than 0.05.

After testing the hypothesis, calculated t-value for Detective internal controls, which is greater than the critical $t_{36} (0.05) = 2.0$, the study rejected the null hypothesis that Detective internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd

Therefore the study accepted the alternative hypothesis Detective internal controls have significant effect on financial performance in ICEA Lion Life Assurance Ltd, concurring with (Aramide S. F., 2015).

Hypothesis Two

H_0 = Preventive internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd.

H_1 = Preventive internal controls have effect on financial performance in ICEA Lion Life Assurance Ltd

$B_1 \neq 0$

In relation to the variable Preventive internal controls, the results in table 4.15 supported by regression analysis t-value of 4.393 which is greater than the critical value 2.0 and p-value of 0.00 at 95% level of significance which is less than 0.05. After testing the hypothesis, calculated t-value for Preventive internal controls, which is greater than the critical $t_{36} (0.05) = 2.0$, based on this, the study rejected the null hypothesis that Preventive internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd.

Therefore the study accepted the alternative hypothesis that Preventive internal controls have effect on financial performance in ICEA Lion Life Assurance Ltd. This concurs with Kinyua (2015), on Effect of internal control environment on the financial performance of companies quoted in the Nairobi Securities Exchange; International Journal of Innovative Finance and Economics Research.

Hypothesis Three

H_0 = Corrective internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd.

H_1 = Corrective internal controls have effect on financial performance in ICEA Lion Life Assurance Ltd.

$B_1 \neq 0$

In relation to the variable Corrective internal controls, the results in table 4.15 supported by regression analysis t-value of 4.822 which is greater than the critical value 2.0 and p-value of 0.00 at 95% level of significance which is less than 0.05.

After testing the hypothesis, calculated t-value for Corrective internal controls, which is greater than the critical $t_{36} (0.05) = 2.0$, on bases of this, the study rejected the null hypothesis that Corrective internal controls have no effect financial performance in ICEA Lion Life Assurance Ltd. Therefore the study accepted the alternative that Corrective internal controls have significant effect financial performance in ICEA Lion Life Assurance Ltd. This confirms Aramide S. F. (2015), study findings on the effectiveness of internal control system and financial accountability at Local Government level in Nigeria; International Journal of Research In Business Management.

Hypothesis Four

H_0 = Monitoring internal controls have no effect on financial performance in ICEA Lion Life Assurance Ltd.

H_1 = Monitoring internal controls have effect on financial performance in ICEA Lion Life Assurance Ltd.

$B_1 \neq 0$

In relation to the variable Monitoring internal controls, the results in table 4.15 above supported by regression analysis t-value of 4.337 which is greater than the critical value 2.0 and p-value of 0.00 at 95% level of significance which is less than 0.05.

After testing the hypothesis, calculated t-value for Monitoring internal controls which is greater than the critical $t_{36} (0.05) = 2.0$, the findings rejected the null hypothesis that Monitoring internal controls have no significant effect financial performance in ICEA Lion Life Assurance Ltd. Therefore the study accepted the alternative that Monitoring internal controls have significant effect financial performance in ICEA Lion Life Assurance Ltd. This is in support of Badara (2013) views that Monitoring internal controls have significant effect on financial performance in his research, Impact of the effective internal control system on the internal audit effectiveness at local government level: Journal of Social and Development Sciences.

4.8.1 Hypothesis Testing Analysis

Referring to table 4.16, using the significance of 0.05, Detective internal controls were found to be statically significant since $t=5.666$, and p -value < 0.05 . There was then statistical significance between mean at ($p < 0.05$), thus we reject the null hypothesis (H_0 = Detective internal controls have no significant effect financial performance in ICEA Lion Life Assurance Ltd and accept the alternative hypothesis (H_1 = Detective internal controls have significant effect financial performance in ICEA Lion Life Assurance Ltd.

Referring to table 4.16 below, Preventive internal controls were found statistically significant since $t=4.393$, and p -value $<$. There was then statistical significance between mean at ($p < 0.05$), thus we reject the null hypothesis (H_0 = Preventive internal controls have no significant effect financial performance in ICEA Lion Life Assurance Ltd and accept the alternative hypothesis (H_1 = Preventive internal controls have significant effect financial performance in ICEA Lion Life Assurance Ltd.

Referring to table 12, as shown, Corrective internal controls were found statistically significant since $t=4.822$, and $p\text{-value} < 0.05$. There was statistical significance between mean at ($p < 0.05$), thus we reject the null hypothesis (H_0 = corrective internal controls have no effect financial performance in ICEA Lion Life Assurance Ltd, and accept the alternative hypothesis (H_1 = Corrective internal controls have effect financial performance in ICEA Lion Life Assurance Ltd. Finally, referring to table 4.16, using the significance of 0.05, Monitoring internal controls were found to be statically significant since $t=4.337$, and $p\text{-value} < 0.05$. There was then statistical significance between mean at ($p < 0.05$), thus we reject the null hypothesis (H_0 = Monitoring internal controls have no effect financial performance in ICEA Lion Life Assurance Ltd, and accept the alternative hypothesis (H_1 = Monitoring internal controls have effect financial performance in ICEA Lion Life Assurance Ltd.

Table 12: Hypothesis Testing

Hypothesis Statement	β	t	Decision Rule
H_{01} : Detective internal controls have no effect on financial performance of ICEA Lion Life Assurance Ltd	0.476	5.666	Reject H_{01} if P-value ≤ 0.05 otherwise fail to reject H_{01} if P-value > 0.05
H_{02} : Preventive internal controls have no effect on financial performance of ICEA Lion Life Assurance Ltd	0.79	4.393	Reject H_{02} if P-value ≤ 0.05 otherwise fail to reject H_{02} if P-value > 0.05
H_{03} : Corrective internal controls have no effect on financial performance of ICEA Lion Life Assurance Ltd	0.513	4.822	Reject H_{03} if P-value ≤ 0.05 otherwise Fail to reject H_{03} if P-value > 0.05
H_{04} : Monitoring internal controls have no effect on financial performance of ICEA Lion Life Assurance Ltd	0.026	4.337	Reject H_{04} if P-value ≤ 0.05 otherwise Fail to reject H_{04} if P-value > 0.05

9.0 DISCUSSION OF THE FINDINGS

9.1 Detective Internal Controls

The first objective was to find out the effect of detective internal controls on financial performance in ICEA Lion Life Assurance Ltd. The study looked at the critical role of detective

internal controls on financial performance collection in the insurance industry. The findings revealed that, when detective internal controls were correlated with financial performance, there was a strong positive correlation. Regression coefficient demonstrates that financial performance was central in determining implementation of proper detective internal control systems in the insurance industry.

9.2 Preventive Internal Controls

The Second objective was to find out the effect of preventive internal controls on financial performance in ICEA Lion Life Assurance Ltd. The study looked at the critical role of preventive internal controls on financial performance in the insurance industry. The findings revealed that, when preventive internal controls were correlated with financial performance, there was a strong positive correlation. Regression coefficient demonstrates that financial performance was central in determining implementation of proper preventive internal control systems in the insurance industry. This signifies that preventive internal control in an organization has great effect on determining specific strategies on financial performance in the insurance industry in Kenya.

9.3 Corrective Internal Controls

Third objective of the study was to determine the effect of corrective internal controls on financial performance in ICEA Lion Life Assurance Ltd. The study looked at the critical role of corrective internal controls on financial performance in the insurance industry. The findings revealed that, when corrective internal controls were correlated with financial performance, there was a strong positive correlation. Regression coefficient demonstrated that financial performance was central in determining implementation of proper corrective internal control systems in the insurance industry. This signifies that corrective internal control in an organization have great effect on determining specific strategies on financial performance in the insurance industry in Kenya.

9.4 Monitoring Internal Controls

Fourth objective of the study was to determine the effect of monitoring internal controls on financial performance in ICEA Lion Life Assurance Ltd. The study looked at the critical role of monitoring internal controls on financial performance in the insurance industry. The findings revealed that, when monitoring internal controls were correlated with financial performance, there was a strong positive correlation. Regression coefficient demonstrated that financial performance was central in determining implementation of proper monitoring internal control systems in the insurance industry. This signifies that monitoring internal control in an organization have great effect on determining specific strategies on financial performance in the insurance industry in Kenya.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 Conclusions

10.1.1 Detective Internal Controls

The study established that there is a positive link between detective internal controls and financial performance. The study concluded that audits (both external and internal) are important to ensure organizations meet their financial performance targets, reconciliations of business transactions are an important practice to assist an organization meet financial performance targets, consistent reviews of policies and procedures can help an organization's internal controls system remain effective and efficient to improve financial performance and verifications of the organization's transactions is an important element of internal controls towards improved financial performance, as argued by, (Alao, 2014).

This concurs with (Hu, 2013) that management not only develops the necessary controls but also guides their organizations towards execution of the specific controls by ensuring that the required human and financial resources are available. The management also develops an implementation schedule to guide the process used as a control mechanism operations. Additionally, the level of managerial competence at the management of any organization has a direct influence as to whether controls will be successfully or unsuccessfully implemented,(Fernandez, 2017)

10.1.2 Preventive Internal Controls

The study established that preventive internal controls was essential in control implementation. The positive link between preventive internal controls and financial performance suggests that preventive internal controls play a significant role in financial performance in the insurance industry in Kenya. The study also concluded that segregation of duties is a strong element of internal controls for higher financial performance in an organization, approvals of all operations are fundamental controls and their absence may lead to collapse of the organization, authorizations at all organization levels is a sign of strong controls to safeguard and physical checks and restricted access to organizations assets guarantee steady operations for improved financial performance. This concurs with Dorminey (2012) observations that lack of adequate financial internal control, the organization may not realize much in form of financial performance. In support of this, Asuquo (2014) confers that insufficient controls is an obstacle to successful execution of financial performance growth.

10.1.3 Corrective Internal Controls

The study found that corrective internal controls play a significant role in financial performance in an organization. The study concludes that reporting culture of critical information to supervisors, training programs empower employees for better performance and timely warnings to employees are part of progressive discipline for errors and can help tame evil practices that may create loopholes for fraud, (Kinyua J. K., 2015). This concurs with Asuquo (2014) observations that effective internal controls are essential for organizations financial performance growth.

10.1.4 Monitoring Internal Controls

From the study, it can be concluded that monitoring internal controls play an important role in success of increased financial performance in an organization. The findings concluded that organizations management style, corporate culture, values, philosophy and operating style, organizational structure, and human resources policies and procedures guide the day to day activities, risk management department for the assessment, identification, mitigation and evaluation of risks is critical, policies, procedures, techniques, and mechanisms as control activities to help reduce the identified risks must be in existence for the external auditor to rely on the quality of the internal audit of the organization. This also concurs with Purce (2014) who ascertained that organization controls determine the effectiveness and efficiency levels for decision making thus improving financial performance in the organization.

10.2 Recommendations

Based on the findings from the respondents and the analysis, the recommendations would be;

1. The managers should have the ability to institute enough effective internal controls in order to safeguard organizations assets and ensure smooth operations.
2. The organizations should be adequately funded for successful implementation of effective controls.

3. The study recommended that the organization should train middle level management and to ensure that there is overall coordination in inter-departmental linkages and smooth flow of operations.

REFERENCES

- Achim, A. M. (2014). Financial accounting quality and its defining characteristics. *Practical Application of Science*, 2(3).
- Alao, A. A. (2014). Enhancing the performance of electricity distribution companies in Nigeria via internal control system. *Research Journal of Finance and Accounting*, 5(22), 197.
- Alles, M. B. (2018). Continuous monitoring of business process controls: A pilot implementation of a continuous auditing system at Siemens. . In *Continuous Auditing: Theory and Application*, 219-246.
- Al-Matari, E. M.-S. (2014). The measurements of firm performance's dimensions. *Asian Journal of Finance & Accounting*, , 6(1), 24.
- Aramide, S. F. (2015). The effectiveness of internal control system and financial accountability at Local Government level in Nigeria. *International Journal OfResearch In Business Management*,, 3(8).
- Armstrong, C. S. (2012). Corporate governance, compensation consultants, and CEO pay levels. *Review of Accounting Studies*, 17(2), 322-351.
- Associationn, G. (2014). The insurance industry and climate change-Contribution to the global debate. *The Geneva Reports*,, 2(1), 1-152.
- Asuquo, A. I. (2014). Accounting For Influence Of Execution Of Financial Conventions On Revenue Utilization In Local Government Areas: Nigeria's Experience Of Level Of Voluntary Compliance. *European Journal of Accounting Auditing and Finance Research*, 2(5), 1-18.
- Aziz, N. A. (2012). Financial crime. *Journal of financial crime volume 20 issue 1*.
- Badara, M. A. (2013). Impact of the effective internal control system on the internal audit effectiveness at local government level. *Journal of Social and Development Sciences*,, 4(1), 16-23.
- rnal of Project Management*,, 30(5), 539-553.
- Pollitt, C. &. (2013). Searching for impacts in performance-oriented management reform: A review of the European literature. *Public Performance & Management Review*, , 1, , 7-32.
- Porter, M. E. (2019). Creating shared value. *Managing sustainable business*, 323-346.
- Purce, J. (2014). The impact of corporate strategy on human resource management. . *New Perspectives on Human Resource Management* , 67.
- Putra, Y. H. (2014). Detecting Internal Control Problems Based on COSO and Islamic Perspective: Case on SMEs. . *Tazkia Islamic Finance and Business Review*, 8(1).
- Radhouani, A. I. (2014). Extraction of insider attack scenarios from a formal information system modeling. *Formal Methods for Security*, 1158, 5-19.
- Radnor, Z. &. (2013). Lean in UK Government: internal efficiency or customer service. *Production Planning & Control*,, 24(10-11), 903-915.
- Regoniel, P. A. (2015). *Conceptual Framework: A Step by Step Guide on how to make one*. Retrieved from www.simplyeducate.me: <https://simplyeducate.me/2015/01/05/conceptual-framework-guide/>
- Reurink, A. (2018). Financial fraud: a literature review. *Journal of Economic Surveys*,, 35(2), 1292-1325.
- Sears, T. C. (2013). Doctoral dissertation, University of St. Gallen. *New Subsidiary Governance" for International Banks* .
- Seekings, J. (2011). British colonial policy, local politics, and the origins of the Mauritian welfare state, 1936–50. *The Journal of African History*,, 52(2), 157-177.

- Senge, P. M. (2014). Crown Business. *The fifth discipline fieldbook: Strategies and tools for building a learning organization*.
- Shmuelof, L. K. (2012). How is a motor skill learned? Change and invariance at the levels of task success and trajectory control. *Journal of neurophysiology*, 108(2), 578-594.
- Sigilai, D. K. (2017). Doctoral dissertation, COHRED-JKUAT. *Assessment of Internal Control Systems Effects on Revenue Collection at Nakuru Level Five Hospital*.
- Skærbæk, P. (2014). The uncertainties of risk management: A field study on risk management internal audit practices in a Finnish municipality. *Accounting, Auditing & Accountability Journal*, 27(3), 489-526.
- Song, Y. &. (2012). Survey on reliability of power electronic systems. *IEEE Transactions on Power Electronics*, 28(1), 591-604.
- Sundem, G. L. (2012). Introduction to financial accounting. *Introduction to financial accounting*.
- Tang, Z. H. (2012). How corporate social responsibility engagement strategy moderates the CSR–financial performance relationship. *Journal of Management Studies*, 49(7), 1274-1303.
- Tate, W. L. (2012). Service supply management structure in offshore outsourcing. *Journal of Supply Chain Management*, 48(4), 8-29.
- Tayeh, M. A.-J. (2015). Accounting vs. market-based measures of firm performance related to information technology investments. *International Review of Social Sciences and Humanities*, 9(1), 129-145.
- Teece, D. P. (2016). Dynamic capabilities and organizational agility: Risk, uncertainty, and strategy in the innovation economy. *California Management Review*, 58(4), 13-35.
- Ter Bogt, H. J. (2012). Performance management in universities: Effects of the transition to more quantitative measurement systems. *European Accounting Review*, 21(3), 451-497.
- Tyler, R. W. (2013). Basic principles of curriculum and instruction. In. *Curriculum Studies Reader E2*, 60-68.
- Verhoef, P. C. (2013). Successful customer value management: Key lessons and emerging trends. *European Management Journal*, 31(1), 1-15.
- Vijayakumar, A. N. (2012). Internal Control Systems: Effectiveness of Internal Audit in Risk Management at Public Sector Enterprises. *BVIMR Management Edge*, 5(1).
- Vinnari, E. &. (2014). The uncertainties of risk management: A field study on risk management internal audit practices in a Finnish municipality. *Accounting, Auditing & Accountability Journal*, 27(3), 489-526.
- Vlad, M. &. (2011). The internal control system of the credit institutions. *The USV Annals of Economics and Public Administration*, 10(1), 163-169.
- Wadongo, B. O. (2010). Key performance indicators in the Kenyan hospitality industry: a managerial perspective. *Benchmarking: An international journal*, 17(6), 858-875.
- Westerman, D. S. (2012). A social network as information: The effect of system generated reports of connectedness on credibility on Twitter. *Computers in Human Behavior*, 28(1), 199-206.
- Wheelen, T. L. (2011). Concepts in strategic management and business policy. *Concepts in strategic management and business policy*.
- Yan, Y. Q. (2012). A survey on smart grid communication infrastructures: Motivations, requirements and challenges. *IEEE communications surveys & tutorials*, 15(1), 5-20.
- Yi, H. C. (2018). Stochastic properties and reliability measures of discrete-time semi-Markovian systems. *Reliability Engineering & System Safety*, 176, 162-173.
- Yilmaz, K. (2013). Comparison of quantitative and qualitative research traditions: Epistemological, theoretical, and methodological differences.