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ACCOUNTING INTERNAL CONTROL SYSTEMS AND FIRM PERFORMANCE: EVIDENCE FROM COMMERCIAL BANKS IN KERICHO COUNTY, KENYA

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Abstract

The purpose of this study was to establish the effects of internal accounting control systems on enhancing the performance of banking organization. The study was guided by agency and contingency theories. The hypothesis tested were; there is no significant relationship between internal checks and performance, there is no significant effects of test checks on performance and there is no significant effect of internal audit on performance of tier one (1) banks. The study was conducted in Kericho town by considering a sample of 141 employees of tier one banks. Data was collected by use of questionnaires and analysed by use of descriptive statistics and multiple regression analysis the results of the study showed a value of R2=0.542(p=0.01). The study established that there was significant relationship between internal accounting control system and performance of tier (1) one banks. The study recommends that the management of tier (1) one banks should strengthen their internal accounting control systems, that is, internal checks, internal audit and test checks since it significantly affected their performance. The study concluded that effective internal check in the bank result to increase in performances of tier (1) one bank and therefore, the banks should ensure they have strong and effective internal check procedures in monitoring their operations it also concluded that strong internal audit results to increase in performance of tier (1) one banks.

Keywords: Internal Control systems, banks, firm performance, Kenya

INTRODUCTION

Internal accounting control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization’s reputation (Kaplan, 2008). According to Cunningham (2004), internal accounting control systems begin as internal processes with the positive goal of helping a corporation meet its set objectives. Management primarily provides oversight activity; it sets the entity's objectives and has overall responsibility over the internal accounting control system. Internal controls are an integral part of any organization’s financial and business policies and procedures (Kaplan, 2008).Internal accounting controls consist of all the measures taken by the organization for the purpose of; protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all organizational units of the organization.

Internal accounting control systems are applicable to each organization in relation to key risks and are embedded within the operations and not treated as a separate exercise. Internal accounting control system should be able to respond to changing risks within and outside the company and they are a means to an end, not an end itself, (Cunningham, 2004). He further states that internal controls are effected by people not merely policy manuals and forms, but people functioning at every level of the institution. Internal accounting control only provides reasonable assurance to an institution’s leaders regarding achievement of operational, financial reporting and compliance objectives; promoting orderly, economical, efficient and effective operations; safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud, (Kaplan, 2008). Internal controls lead to the promotion of adherence to laws, regulations, contracts and management directives and the development and maintenance of reliable financial and management data, and accurately present that data in timely reports.

According to Treba (2003), a system of internal accounting control is a tool for ensuring that an organization realizes its mission and objectives. He further notes that much as internal accounting controls are often thought to be the domain of accountants and auditors; it is actually management that has primary responsibility for proper controls. A critical element of any comprehensive internal accounting control system is regular monitoring of the effectiveness of internal accounting controls to determine whether they are well designed and functioning properly (Treba, 2003). Lawson, De Renzio, & Umarji (2006), noted that weaknesses in internal accounting control systems lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money. Organizations establish internal accounting control system to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations (Mwindi, 2008).

According to International Auditing and Assurance Standards Board (IAASB) (2012), internal accounting control systems means all the policies and procedures (internal accounting controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Every organization aim at achieving effective internal accounting control systems in its operation in order to achieve its goals and objectives. This can be done by the introduction of policies, procedures, roles and regulations and guidelines that should be followed to ensure that activities are conducted as required. Successful organizations ensure that they attain and consolidate continued survival in a competitive environment (Drucker 1999). Thus successful organizations set performance measures that focus attention that identifies and communicates the success, support organization learning and provide a basis for assessment and reward (Brown, 1996).

Organizational performance is measured in terms of customer satisfaction, through reduced customer complaints (Kloot, 1999). In order to be able to perform organizations should critically look at customers and all stakeholders in business and know how best they are satisfying their needs. Kloot, (1999) adds that organizations should continuously improve their services through assets accumulation, create value, improved quality services and flexibility internal accounting control system is intervened with organizations operating activities and it is most effective when controls are built into the organizations infrastructure becoming part of the very essence of the organizations success in terms of continued improvement on performance standards as part of the competitive advantage of the organization.

The Basle Committee (1998), along with banking supervisors throughout the world, has focused increasingly on the importance of sound internal controls. This heightened interest in internal controls is, in part, a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks maintained effective internal accounting control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organizations.

Statement of the Problem

It is essential that any organization should have a strong system of internal accounting control designed to facilitate the achievement of the goals and objectives of the organization. Most of the significant losses incurred by the several organizations could properly be avoided if the organization maintains a strong internal accounting control system such which will facilitate early detection and prevention of acts that lead to losses, thus limiting the business to damages. Sufficient understanding of the internal accounting control system is to be obtained to plan the nature, timing and the extent of test to be performed to the records. In the United State of America, many organisations have adopted the internal accounting control concepts presented in the report of the Committee of Sponsoring Organisations of the Trade way Commission explained that internal accounting control system is mechanism for reducing instances of frauds, misappropriation and errors.

Siyanbola (2013) conducted a study on effective internal accounting control system as an antidote for distress in the banking industry in Nigeria, in this study the researcher focused on internal accounting control system as tool used by banks to control misappropriation, misuses of assets and detection of errors and frauds. Muganda and Abdillahi (2015) examined the relationship between corporate governance mechanism and financial performance of commercial banks in Kenya, measured only by return on asset on commercial banks this study focused only on relationship of corporate governance and financial performance. None of the above studies has focused on effects of internal accounting control on performance of the bank; therefore this study will focus on finding out the effect of internal accounting control systems on the performance of banking institutions.

The general objective of the study was to establish the effects of internal accounting control system on performance of Tier one (1) banks in Kericho town, Kenya. Specifically, the study sought to establish the effects of internal check on performance of tier one (1) banks in Kericho town, determine the effects of internal audit on performance of tier one (1) banks in Kericho town, examine the effect of test checks on the performance of tier one (1) banks in Kericho town and determine the relationship between internal accounting control systems and performance of tier one (1) banks in Kericho town. Accordingly, the following hypothesis were developed:

$H1_0$: There isno significant relationship between internal check and performance of the tier one (1) banks.

$H2_o$: There is no significant influence of internal audit on performance of tier one (1) banks.

$H3_o$: There is no significant effect of test checks on performance of tier one (1) banks.

$H4_o$: There is no significant relationship between internal accounting control systems and performance of tier one (1) banks.

RESEARCH METHODOLOGY

Research design entails a plan for collection of data and analysis of the data so as to meet the objectives of relevance and economy for the purpose of this research work. Kerlinger (1973), defined research design as the plan, structure of investigation conceived so as to obtain answers to research questions and to control variances. The study adopted Causal design. Causal research design is used to study the effects of independent variables on dependent variables. Causal design was appropriate since the researcher was finding the effects of internal accounting control on performance of equity bank.

The study was carried out in Kericho town, Kericho County, Kenya between the months of August to November 2015. The town has five tiers (1) one banks: Equity, KCB, Cooperative bank of Kenya, Standard chartered bank and Barclays bank of Kenya. Population is generally the total number of units with specific characteristic that the researcher can use to obtain a sample for the study. Population is generally the target group when carrying out the research. According to Mugenda and Mugenda, (2003) population should have some observable characteristics of internal accounting control system, to which the researcher intends to generalize the results of the study. The target population for the study comprised all staff of tier one (1) banks in Kericho. The tier one (1) banks in Kericho town are Barclays bank, Cooperative bank, Equity bank, Kenya commercial bank and Standard Chartered bank.

The study used members of staff from all tier (1) banks. The study used census since the number was small and there was no need of sampling. The study used questionnaires for data collection. The questionnaires were used since it’s direct to the point and took shorter time for both the researcher and the respondents (Owen 2002). A standard questionnaire was designed in a simple which guided and enabled the participants to provide simple responses. According to Kothari (ibid) a questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaires were divided into various sections and were guided by the specific objectives of the study, and were administered through dropping the questionnaires to all staff of tier (1) one bank and collecting later.

The content validity was used to examine whether the questionnaire tests what was intended to test. Validity of the instrument was obtained through the pilot study to pre-test the validity. According to Masibo (2005), pre-testing provided check on the feasibility of the proposed procedure for coding data and shows up flaws and ambiguities in the instruments for data collection. This yielded on suggestions for improving data collection tools.According to Shanghverzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. According to (Phelan and Wren, 2006) Reliability is the degree to which an assessment tool produces stable and consistent results. Reliability was done by distributing the 100 questionnaires to the staff of Tier two (2) banks this allowed for pretesting of the research instruments. The results were compared using Cronbach's alpha reliability coefficient which normally ranges between 0 and 1. The correlation coefficient of 0.6 was achieved.

The study used descriptive and regression analysis. The aim of this was to assemble or reconstruct the data in a meaningful or comprehensible fashion (Jorgensen, 1989). The categorizing was typically based on the major questions guiding the study. Generalization from the themes about the phenomena in question and discussion in the light of the available literature were then made.A multiple regression model was used for the analyses of data. The effect of internal accounting control system on performance was determined by the equation below:

$\mathbf{Y = a + b_1x_1 + b_2x_2 + b_3x_3 + \varepsilon}$

Where:

Y = Performance

a= Constant/the intercept point of the regression line and the y-axis

b= Coefficient of X_1, X_2 and X_3

$\mathbf{x_1}$ = Internal checks

$\mathbf{x_2}$= Internal audit

$\mathbf{x_3}$=Test checks

ε= Error term

Performance (Y) = a+ b_1(internal checks) + b_2 (internal audit) + b_3(test checks) +ε **(**error term)

A student's t-distribution test was carried out to determine the strength of the relationship between the dependent and the independent variables .The test was carried out to determine whether the coefficients b_1, b_2, and b_3 were significantly different from zero. If the coefficients were significantly different from zero, then it was concluded that there was a positive effect between the dependent and independent variables and thus a positive effect of internal accounting control system on performance of tier (1) bank.

The study also used descriptive statistic analysis for factual information about a situation to provide an understanding of performance (Wilson, 2006). Descriptive statistics are statistical frequencies, percentages, mean scores and standard deviation were employed.

Data gathered in the study was tabulated against each of the items of the instrument, using simple percentages. The positive responses comprised of Strongly Agree and Agree while the negative responses comprised of Strongly Disagree and Disagree

The respondents were invited to make their decision freely and they were assured their respect and dignity will be upheld. They were encouraged to fill in the questionnaire independently and express their feelings. The respondents were also assured of confidentiality and they were to remain anonymous. The result was aggregated in a manner that no individual was identified. The result of the findings was also shared with the bank.

RESULTS AND DISCUSSION

The first section presents descriptive statistics on the variable followed by findings on the hypothesis tested and discussions. In the Table 1, are details of measures of effects of the internal checks under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation do as to deduce meaning out of the results.

Table 1. Mean and Standard deviation of responses to Internal Checks

	N	Minimum	Maximum	Mean	Std. Deviation
Internal checks helps to enhance efficiency	141	0	5	3.39	1.580
Internal checks ensures moral exercise from all staff	141	1	5	3.74	.875
Internal checks ensures proper allocation of responsibilities and duties to all staff	141	1	5	3.65	1.102
Internal checks ensures staff are careful in performance of their duties	141	2	5	3.97	.886
Internal checks help detect errors or fraud already committed by staff	141	1	5	3.81	1.218
Internal checks help to minimize possibilities of errors, fraud or irregularities	141	1	5	3.70	1.163

The study found that the respondents agree that the internal checks ensures proper allocation of responsibilities and duties to all staff with mean of3.65. However, the corresponding standard deviation also revealed a significant value of 1.102. This also shows that there is a clear variation in the responses provided by the respondents about the internal checks ensuring proper allocation of responsibilities and duties to all staff in the bank. Respondents seemed to agree that internal checks ensure moral exercise as reflected by the mean value of 3.74 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.875 suggests varied responses regarding internal checks ensuring moral exercise in the bank. This is in line with COSO (2012) advocacy that an essential of effective internal accounting control is the strong culture.

In Table 1, respondents provided their understanding regarding to how internal checks helps to minimizes the possibilities of errors, frauds or irregularities which showed by the of mean of 3.70, this imply that they agree with the statement, though a standard deviation of 1.163 suggests significant differences in responses as regards to internal checks helping to minimize the possibilities of errors, frauds or irregularities in the banks. The results as reflected in Table 1 show a mean of 3.81. Which show that respondents agree with the statement that Internal check help detect errors or fraud already committed by staff. Consequently, a standard deviation figure of 1.218 raises concerns regarding internal check helping detect errors or fraud already committed by staff. The figure of standard deviation further reveals that the respondents had varied opinion about internal check helping detect errors or fraud already committed by staff. The study (as reflected in Table 1) found that the respondents seem to agree that the internal checks enhance efficiency with a mean value of 3.39. However, the corresponding standard deviation also revealed a significant value of 1.580. This also shows that there is a clear variation in the responses provided by the respondents about the internal checks enhancing the efficiency in the banks. Findings also suggest that respondents seem to agree that internal check ensures that staff are careful in the performance of their duties with mean of 3.97 and the standard deviation of 0.886 which suggests that they possess variation in understanding about the internal check and the performance.

In the Table 2 are details of measures of effects of the internal audit under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation so as to deduce meaning out of the results.

Table 2. Mean and Standard deviation of responses to Internal Audit

	N	Min	Max	Mean	Std. Dev.
Internal audit ensures authenticity and correctness of statements	141	1	5	3.79	1.052
Internal audit ensures reduction in possibility manipulation of transaction	141	1	5	3.66	1.041
Internal audit ensures systematic accounting and proper recording of transaction	141	1	5	3.21	.991
Internal audit help to highlight weak areas of the organization and give suggestion to strengthen them and improve performance	141	1	5	2.68	.913

From the results in Table 2, it is clearly evident that respondent were in total agreement that internal audit ensures authenticity and correctness of statements as reflected by a mean value of 3.79 which is tending towards maximum value of 5 (i.e. strongly agreeing). However, the standard deviation of 1.052 suggests variations in responses by the various respondents. From the results of the study as reflected by Table 2 , respondents agree as to whether the internal audit ensures reduction in possibility of manipulation of transaction and accounts. This is revealed by a mean of 3.66. However, a standard deviation of 1.041 suggests a significant variation in the responses generated by the respondents.

Results of the study as reflected in Table 2 also suggest that Respondents agree that the internal audit ensures systematic accounting and proper recording of transaction. This is revealed by a mean of 3.21, although the standard deviation of 0.991 seems to suggest variation in the responses generated for the test. From the study, as reflected in Table 2 , it can be deduced that respondents slightly agree that internal audit helps highlight the weak areas of the organization and give suggestion to strengthen them and improve performance; this is revealed by a mean value of 2.68, although the standard deviation under the same test revealed a variations of 0.913 in responses.

In the Table 3 are details of measures of effects of the test checks under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation so as to deduce meaning out of the results.

Table 3. Mean and Standard deviation of responses to Test check

	N	Minimum	Maximum	Mean	Std. Deviation
Test check enhances staff efficiency and effectiveness	141	1	5	1.92	.784
Test check improves staff performance	141	1	4	1.96	.711
Test check represent whole set of operations in the bank	141	1	4	2.33	1.086
Test checks is done regularly in the bank	141	1	4	2.47	1.039
Staff are aware when test check are conducted	141	1	5	2.79	1.251

Results of the study in Table 3 shows a mean of 1.92 which is below the average; this suggests that respondents don’t believe that the test check enhances staff efficiency and effectiveness. However, a standard deviation of 0.784 suggests varied responses as to whether the Test check enhances staff efficiency and effectiveness. From the results of the study in Table 3, respondents seem to disagree as to whether the Test check improves staff performance. This is revealed by a mean of 1.96 which is below the average of 3. However, a standard deviation of 0.711 suggests a significant variation in the responses generated by the respondents

The study as reflected in Table 3, it can be deduced that respondents slightly agree that Test check represent whole set of operations in the bank, this is revealed by a mean value of 2.33, although the standard deviation (1.086) under the same test revealed a variations in responses generated. From Table 3, respondents seem to marginally agree that Test checks are done regularly in the bank as reflected by the mean value of 2.47. However, a significant standard deviation figure of 1.039 reveals varied responses from the respondents on the same, implying that they have different opinions about test checks being done regularly in the bank. Results of the study in Table 3 also suggested that staffs are not sure as to whether Staff are aware when test check are conducted. This is revealed by a mean value of 2.79 which is slightly above the average. However, a significant standard deviation of 1.251 which suggests that in as much as staffs are not aware as to whether test check are conducted, they varied greatly in their responses.

The relationship between the independent variables and the dependent variable were also analysed by correlation and multiple correlation analysis. The findings are presented in Table 4 and Table 5.

Table 4: Correlation analysis

	Performance	Internal checks	Internal audit	Test checks
Performance	1**			
Internal checks	.225**	1**		
Internal audit	.707**	.334**	1**	
Test checks	.076	.612**	.338**	1*

** r=0.01 (correlation is significant at 0.01)

* r=0.05 (Correlation is significant at 0.05)

Table 4 presents the relationship between dimensions of Internal accounting Control systems measured by internal check, internal audit and test check against performance of tier (1) banks. The results show that all the dimensions relate positively. Specifically, internal check relates positively with performance with r=0225 (p<0.01), the relationship between internal audit and performance was also significant at r=0.707 (p<0.01). However, there was a slight positive relationship between test check and performance r=0.076 (p>0.05) this relationship was not significant.

Multiple regression equation was used to determine the level of prediction of the independent variable (internal check, internal audit and test check) for internal accounting control systems, by the dependent variable for performance of the bank.

Table 5: Summary of regression model

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R^2 Change	F change	df1	df2	Sig. F Change
1	.736[a]	.542	.532	1.69561	.542	53.953	3	137	.000

a. *Predictors: (constant), internal checks, internal audit, test checks*

b. *Dependent variable. Performance*

Table 5 Shows a summary of the regression model. The predictors in this model are internal checks; internal audit and test checks and the dependent variables is the bank performance.

Findings revealed that collectively the predictors accounts for 54.2% of the performance of the tier (1) banks as shown by R^2=0.542($p<0.001$). This implies that the performance of the banks can be significantly improved by putting in place effective system of internal check, strong internal audit and test check

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	3.760	.662		.000
	Internal checks(x_1)	.104	.058	.134	.074
	Internal audit(x_2)	.660	.055	.751	.000
	Test checks(x_3)	-.251	.072	-.260	.001

Dependent Variable: Performance

The established regression equation was

$Y = 3.760 + 0.104x_1 + 0.660x_2 - 0.251x_3$

From the regression equation, the study revealed that internal check, internal audit and test check to a constant zero performance of tier (1) banks would stand at 3.760, a unit increase in internal check would lead to increase in performance of the banks by a factor of 0.104, a unit increase in internal audit would lead to increase in performance of tier (1) banks by a factor 0.660, a unit increase in test check would lead to decrease in performance of tier (1) banks by a factor of -0.251.Table 6 shows that internal check is positively related to performance of the bank with $r = 0.225$ ($p < 0.01$), the results agree with Saleemi (2012) that it is a system under which the work relating to carrying out and recording of transactions is allocated amongst various persons in such a manner that the work of one person is automatically checked by another. Thus, possibilities of fraud or irregularity are minimized or eliminated, it is also in line with assertions of Millichamp (2008) and Howard (1998), therefore we reject the hypothesis **H_o1**: There is no significant the relationship between internal check and performance of the tier one (1) banks.

The results in Table 6 indicate a positive relationship between internal audit and performance of the bank with $r = 0.707$($p< 0.01$).These results agree with to Maheshwari (2004),conclusion that internal auditing is a review of various operations of the company and of its records by the staff specially appointed for this purpose, also Gerrit and Mohammad (2010), found evidence in support of its monitoring role and thus enhancement of an organizations performance, Basel Committee report (2012) said each bank should have a permanent internal audit function in order to fulfil its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing. Since there is a positive relationship between the internal audit and performance of the bank; hypothesis **H_o2**: There is no significant influence of internal audit on performance of tier one (1) banks is rejected.

Results in Table 6 indicate a slight positive relationship between test check and performance of the bank with r=0.076 (p>0.05). The is in line with Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004 that it is all measures taken by the organization for the purpose of; protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all organizational units . Therefore, test checks activities affect performance of the banks, thus hypothesis three **H_o3**: There is no significant effect of test checks on performance of tier one (1) banks is also rejected.

CONCLUSIONS AND RECOMMENDATIONS

Internal check affects performance of banks in various way such as enhancing efficiency of the employees, ensures proper allocation of responsibilities and duties, help detect errors or fraud already committed by staff and helping to minimize possibilities of errors, fraud or irregularities. This is in line with Wells (2001), illustration that fraud occurrences discovered by competent accountants within organizations and how they detect the fraudulent transactions. Internal accounting control system helps an organization to achieve its objectives such as its efficiency and effectiveness, reliable financial reporting and compliance with regulations. Internal check serve the systems goals, they interact with the system and its environment thus directing the energy of the system toward fulfilment, in the same way changes in the environment are easily noticed and adapted to recognizes that internal accounting controls can enhance the productivity and competitiveness of organizations, Moxham *et al* (2000) found that performances measures are used to ensure that the organization is achieving its aims and objectives and Ghalayini and James(1996) ascertain that performances measures are used to evaluate, control and improve organizational processes.

Internal audit ensures authenticity and correctness of statements, it also reduces the possibility of manipulation of transaction, ensures systematic accounting and proper recording of transaction. This in agreement with to Manasseh (2007), that Internal Auditing is a constant independent appraisal of the Company's/Organization's activities in a bid to ensure that the company runs in an orderly manner and is managed better so as to ensure strong controls in such organizations. Maheshwari (2004) also found that internal auditing is a review of various operations of the company and of its records by the staff specially appointed for this purpose. (IIA, 2004) also noted that the internal audit function is often the key monitor of the internal accounting control systems. Gerrit and Mohammad (2010), found evidence in support of its monitoring role of internal audit and thus enhancement of an organizations financial performance

Test checks enhance staff efficiency and effectiveness, doing test check regularly in the bank and improve performance of performance. This in agreement with Kumar and Sharma (2011) assertions that, the concept of test checking is based on the law of statistical inertia which means the selection and checking of a representative number of entries in each class of transactions instead of going through each and every entry this helps in effective and efficient performance of the staff. COSO (2012) also found that the internal accounting control objectives that are relevant to the organization, unit or activity under review (e.g., lending, investing, and accounting); evaluate the effectiveness of the internal accounting control elements, not just by reviewing policies and procedures, but also by reviewing documentation, discussing operations with various levels of bank personnel, observing the operating environment, and testing transactions.

It can be concluded that effective internal check in the bank result to increase in performances of the bank. Therefore, the banks should ensure they institute strong and effective internal check procedures in monitoring their operations. It can also be concluded that strong internal audit results to increase in performance of the banks. Further, it can be concluded that test check done in the bank slightly helps in improvement of performance of the bank. The study therefore, concludes that tier (1) banks should ensure that they have a very strong internal accounting control systems as this will help increase their performance

From the findings discussed above the study recommends that management of tier (1) banks should put in place strong internal accounting control systems. Strong internal check proved to ensuring proper allocation of resource in the banks, monitoring of activities in the bank, moral exercise from the employees and minimizing irregularities in the banks. Further, it is also recommended that the bank should have effective internal audit which proved to help in detection of errors and frauds committed in the bank, enhancement of efficiency and effectiveness of employees, authenticity and correctness of financial statements and highlight the weak areas of the bank and give suggestion to strengthen them and improve performance in the banks as revealed by the study. The study also recommends the strengthening of the test check which is done in banks this will help in improvement performance of staff and enhancement of efficiency and effectiveness of the staff as revealed by the findings of the study.

The limitation of the current study is that it was confined in Kericho County, Kenya and limited to commercial banks. The study recommends that further research focusing on the effect of internal accounting control system on performance specific industries like cooperative societies, micro finance institutions and even public sector institutions this could perhaps reveal more focused results as different industries may respond differently to certain information releases.

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