

# EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF PUBLIC UNIVERSITIES IN KENYA

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## ABSTRACT

A number of private universities have reported better financial performance than public Universities across the world. The dismal financial performance in public universities can be ascribed to poor financial management practices due to lack of robust internal control systems. Though financial management and internal control systems are essential, there exists only a few studies and empirical evidence on the relationship between financial performance and internal control systems in public universities in Kenya. This study investigated the effect of internal control systems on financial performance of public universities in Kenya. The research was informed by the systems theory, agency theory, attribution theory, and stewardship theory. The research adopted a causal research design, and targeted 160 respondents from 32 public universities. Census sampling technique was applied. Semi-structured questionnaires and secondary sources were used to collect primary and secondary on the financial performance of public universities for five years. The study respondents were the Deputy Vice chancellors (finance), Registrars, In-charge ICT, Finance Officers and Internal Auditors. A total of 142 questionnaires were returned duly filled representing 88.75%. Data was analyzed using Descriptive and inferential analysis. A pilot study was conducted to examine the reliability and validity of the research instruments and instrument adjusted accordingly. Diagnostic tests were carried out and the data was found to be normally distributed and did not suffer from multicollinearity and heteroscedasticity. Results showed that preventive controls regressed individually against the dependent variables. It was concluded that internal control system had to a large extent effect on financial performance of public higher learning institutions. There is need to strengthen internal control systems in state corporations to improve financial performance of internal control systems.

**Key Word:** *Internal Control Systems, Preventive Controls, Financial Performance, Public Universities*