Relationship between Commercial Banks’ cash control system and Banks’ performance in Kenya

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Abstract: The objective of the study was to establish the adequacy of existing cash control system and its effect on the performance of banks in Kenya. The study used descriptive survey as a research design. The target population of this study comprised of 60 respondents drawn from ten commercial banks in Eldoret town, Uasin Gishu County. Data was collected by use of questionnaires and analyzed in excel spreadsheets then presented in tables. The study findings showed that adequacy of exiting internal control system improves performance of the firm. The study recommended that, management of banking sector should involve all the stakeholders that is employees in the organization while carrying out internal control so as to improve its adequacy for the organization and oversee its projected profits. The organization should also benchmark from other successful organization with successful internal control system.

Keywords: Adequacy, Cash control system, Performance

I. INTRODUCTION

Despite the fact that internal control systems is expensive to install and maintain, it has gradually evolved over the years. The major development occurred at the beginning of 1940’s. Not only the complexities of the business techniques has contributed to this development but also the increased size of business units which has encouraged the adoption of methods which while increasing efficiency of the business also acts as safeguard against errors and frauds. The urge for the development of sound control systems has come from both the management and the auditors. This is basically because; it may obviate the necessity of protracted detailed work of an auditor. (Millichamp 2009)

In the recent years this internal control system has achieved great importance. It is designed to safeguard the companies assets against misuse, ensures compliance with the laid down companies policies, ensures that company’s personnel are efficiently utilized, ensures that the company runs in an orderly manner and ensures reliable records which are a source of information necessary for managerial decision making process. It’s clear therefore that the adoption of a sound internal control system is not only helpful to the management but also to external auditors. Central Bank of Kenya (2010) indicated that banks contributed to the development of financial services sector, as well as the economy. (Soyibo and Adekaye, 1991) concludes that banking industry is the key sector in any economy and as a prime mover of economic life they occupy a significant place in every nation.

Manasseh (1990) established that organization both large and small, profit making and nonprofit making are faced with a myriad of problems. Among these problems are: misappropriation of goods, fraudulent manipulation of accounts, embezzlement of cash and suppression or omission of effect of transactions from record or documents. All these problems have made business enterprises incapable of controlling their financial affairs.

Batra (2002) said the internal control involves actions taken within an organization to protect assets against improper asset distribution, assure the accuracy and dependability of all financial and operating information, judge operating efficiency and measure adherence to the organization established policies. He further noted that designing and maintenance of internal control system is the responsibility of management. But it is a matter of great concern for auditor though he has no authority to recommend and prescribe that certain rules and procedures be adopted by the business. He may however assist the management in designing, installation and modification of the system. He finally emphasized that in order to arrive at the conclusion in the internal control system effectiveness issues such as: what are the procedures normally followed, how far are the prescribed procedures effective in creating good and satisfactory internal controla and how the organization actually follow the prescribed procedures.
(Mill champ, 2009) said that internal check and internal audit and are the two broad areas that fall under the scope of internal control system. He defined internal audit as an independent appraisal of activities within an organization for the review of the accounting, financial and other business practices. It is conducted by specially assigned staff. This helps the management to evaluate the performance and efficiency of various established procedures. It provides information whether established procedures are followed or not.

(Manasseh, 2000) suggests that internal checks is a continuous auditing carried out by staff themselves, by means of which the work of each employee or individual is independently checked by other members of staff.

(Emilsyee, 2003) did a case study in internal control of the Nyayo Bus Service Corporation, Nairobi. Its objective was to document and evaluate the internal control system of the corporation and provide recommendations towards the improvement of the existing internal controls. He used personal interviews to gather data and evaluate the same by comparing it with a sound theoretical framework in the internal control. The researcher found out that, fairly good controls were I place in the cash cycle. He however established that the stores department had weak controls due to less adequate segregation of duties.

(William and Colony, 2008) studied internal controls at small business and concluded that contrasting factors affecting accounting controls in large and small business. They went on to suggest ways in which such controls can be strengthened. They cautioned that auditors should be wary of too much reliance on executive controls in a small business. Instead, the auditor should recognize the need for designing other audit procedures that will compensate for the dominance of the executive controls in the business setting.

Although there have been studies on different organizations of different industries that explicit internal control systems, there have been no studies that attempted to make the connection between adequacy of cash control systems and commercial banks performance. The study undertaken was basically aimed at documenting Adequacy of cash control system and commercial banks performance in Kenya

II. METHODOLOGY

The study employed descriptive survey as a research design. Descriptive survey is a method of collecting information by interviewing and administering questionnaires to a sample of individuals, (Orodho, 2003). While literature review means the works the researcher consulted in order to understand information by interviewing and administering questionnaires to a sample of individuals, (Orodho, 2003). While literature review means the works the researcher consulted in order to understand and investigate the research problem. The target population of this study mainly comprised of the staff from selected Banks in Eldoret town, Uasin Gishu County. This basically narrowed to management and section staff. Target population refers to the aggregate or totality of all objects, subject or members that conform to set of specification. It consists of all elements-individuals, items, or object-which’s characteristic are being studied. The population that is being studied is also called the target population (Polit and Hungler, 1995). The target population in this research was 100 respondents mainly drawn from the selected banks. These respondents will be drawn from each department of the selected banks. Purposive sampling technique was used in choosing the respondents. All sampled employees were contacted personally to obtain answers. The number of respondents contacted was thirty being six employees from each bank with adequate knowledge of the systems in the bank. This comprised sixty percent of the entire population.

III. RESULTS AND DISCUSSION

4.1 Analysis of adequacy of existing cash and credit system

An overwhelming majority of the respondents 43.36% of them indicated that existing internal control within the company are very adequate, 31.7% of them revealed it to be adequate, 20% of them inadequate, 5% of them very inadequate and none of the respondent were undecided. This is evidence that cash and credit system are being effectively utilized by the sector.

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<th>Table 3.1 Adequacy of use of internal control</th>
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<td>Response</td>
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IV. CONCLUSIONS

Based on evaluation of the adequacy of exiting internal control system, majority of the respondents indicated that internal control improves performance of the firm. The data from the field also revealed that, the impact of internal control system on the operation has reduced paperwork/ documentation. They also revealed that internal control
has encouraged use of technology, detection of error and fraud and lastly highly increased profitability of the organization.

References