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Effect of Internal Control Procedures on the Financial Performance of Microfinance Institutions in Eldoret, Kenya.

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ABSTRACT
Internal Control procedures in the recent past has been a hot subject of debate. While it has been established that internal control procedures affects financial performance, this has not been the case in many firms due to lack of effective implementation arising from inadequate or nonexistence of proper internal corporate controls. It is therefore in this line that this study sought to determine the effect of internal control procedures on the performance of microfinance institutions in Eldoret, Kenya. The study was guided by Contingency theory. The study adopted a mixed research design and targeted all the 8 microfinance institutions found in Eldoret. A Census of the 8 microfinance institutions was conducted and by purposive sampling, 15 management staff per institution were picked. The total respondents' were therefore 120 after a sample was done. Questionnaires were used as data collection instrument. To determine the validity of the questionnaire items, research experts were used to examine them and their suggestions and comments used as a basis to modify the research items. Cronbach alpha coefficient was used as a reliability test. A value of above 0.7 confirmed the reliability of the research instruments. The data was analysed using both inferential (multiple regression and correlation) and descriptive statistics (frequencies, percentages, mean and standard deviation) and were presented by use of tables and figures and graphs. The study found out that internal control procedures positively and significantly affected the financial performance. It also indicated that internal control procedures is a factor that promotes financial performance of microfinance institutions in Eldoret, Kenya. A summary of results for hypothesis testing was done with a significance level of 0.05, such that when the t value was > ± 1.96 the null hypothesis was rejected. All the null hypotheses were therefore rejected. This study is of great importance to the management of microfinance institutions, the various policy makers, future researchers and academicians and the government in general.
JEL: *G21; G34; L25.*
KEY WORDS: *Corporate Governance, Financial performance, Microfinance institutions*

DEFINITION OF TERMS

Corporate Governance is the process and structure used to direct and manage the business and affairs of a company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking account of the interests of other stakeholders (Kenya Law, 2018).

Financial Performance is a measure of how well firm use assets from its primary mode of business to generate revenues. It measures the financial health of an organisation. The common indicators of financial performance are; profits, return on investment, return on assets, value added and margins among others (Almazari, 2011).

Microfinance is a banking service provided to low-income individuals or groups who otherwise would have no other access to financial services (Ülev, Savaşan, & Özdemir, 2023).

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I. INTRODUCTION

Corporate governance is defined by the Capital Markets Authority ACT Cap 485A as the process and structure used to direct and manage the business and affairs of a company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking account of the interests of other stakeholders (Kenya Law, 2018). This has become the focal point of discussion as drivers of success beyond corporate goals to include economic performance of a country (Kigotho, 2014). This broadens the sphere of scrutiny of the management of entities all over the world.

In Kenya, it is now a requirement of the Capital Markets Authority's code of corporate governance practices for issuers of securities to "provide reasonable assurance regarding the achievement of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations"

(Kenya Law, 2018). The code squarely places this responsibility on the board of directors, management and staff directly related to such activities to effect process that assures such measures are in place in the Capital Markets Act cap 485A of 2018.

Listed Companies target performance mainly in terms of financial gain and continuously present its financial performance as results at the end of their operating period. Financial Performance is thus a measure of how well firm has used its real assets to generate income. Financial performance depicts the health of a firm and use indicators such as profits, return on investment, return on assets, value added and margins among others (Almazari, 2011). It has been pointed out how it is in the stakeholders' interest that the company performs well to ensure returns (Bett & Tibbs, 2017). It is important to identify those key indicators that perfectly measure the impact of corporate governance.

Financial performance of a microfinance institution is measured by Profitability and Return on Assets however Profitability ratios are used to determine the financial institutions bottom line and are important to the managers and owners (Gorton, 2012). Gorton (2012) and Schreiner (2013) focused on accounting measures of profitability when examining managerial entrenchment and takeovers in Latin America. O'Connell, (2023) discovered that profitability persist to a moderate extent. Persistence suggests that departures from perfectly competitive market structures may not be large. The study further shows that all specific determinants, with the exception of size, influence performance in the anticipated way (O'Connell, 2023).

Vafeas and Vlittis, (2019) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Echoing the above findings, Mak and Yuanto (2020) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consists of five members. Roffia, Simón-Moya, and Sendra García, (2021) in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more. Bhagat and Black (2018), found no solid evidence on the relationship between board size and performance.

According to Sheikh and Karim (2015) the drive of their research was to check the influence of CG on the financial performance of the listed banks of Pakistan. In the present scenario, most of the studies are exploring the relationship of internal CG mechanism and financial performance of the banks of Pakistan. The study made an attempt to reveal the same relationship but with extended time frame and data collection. The study selects thirty banks listed at PSE (Pakistan Stock Exchange). This research facilitates the banking firms and also to the corporate patrons and, different financiers to capitalize their financing in the banks of Pakistan.

Channar et al (2015) identifies five interconnected components of internal control as control environment, risk assessment, control activities, information and communication and monitoring. They postulated that Control Environment considerably influences and determines organizational tone hence, serves as a foundation for effective functioning of the internal control system (Channar, Khan, & Shakri, 2015). This was in a study on internal control effectiveness in relation to financial performance of banks in India.

A study by Gregoire and Tuya (2016) established that profits are positively correlated with movements in the business cycle. A study by Berger and Mester (2015) investigating the profit structure relationship in banking in Australia, providing tests of profitability on financial sustainability of microfinance institutions. To some extent, the relative market power hypothesis was verified; since there was evidence that minimizing operational risks raise profits. In contrast, weak evidence was found for the efficient structure hypothesis. It explained that efficiency not only raises profits, but may lead to market share gains and, hence, increased concentration, so that the finding of a positive relationship between concentration and profits could be a spurious result due to correlations with other variables (Berger, 2009).

Although the African continent is gradually adopting corporate governance in management and performance of their organisations they lag behind as these issues have been dominant in the developed market economies for more than a decade (Mwangangi, 2017). Increased business failures due to fraud and mismanagement have placed greater emphasis on internal control systems specific to particular operating environment to mitigate these challenges. This has necessitated the involvement of the board of directors in enhancing and evaluating the effectiveness of internal control measures (Kuhn & Sutton, 2010). Eniola and Akinselure, (2016) studied the effect of internal control on financial performance of firms in Nigeria. To measure these parameters questionnaires are administered as in the study by. The study involved 150 employees from 5 selected manufacturing firms and the researchers were able to deduce a strong correlation between internal control and financial performance (Eniola & Akinselure, 2016).

Investors commit their resources in an entity expecting to have both dividends and capital gains on their investment. This only achievable when companies have positive financial performance and pass the same to its shareholders (Maclean, Ziemba, & Thorp, 2011). Whereas Scholtz & Smit (2012) studying the relationship between Executive remuneration and company performance for South African companies listed on the Alternative Exchange of the Johannesburg Stock Exchange (JSE) used Market Prices of Share (MPS), Return On Asset (ROA)

turnover to measure performance (Scholtz & Smit, 2012), many studies have used Return On Investment(ROI), Return On Equity (ROE), Dividend Yield (DY), Earnings Per Share (EPS) and Price Earnings Ratio (PER) in Opiyo (2011), Wanjiru (2013), Channar et al (2015) Ruparelia & Njuguna (2016).

In Kenya, Microfinance Institutions are licensed by the Central Bank of Kenya to mobilise savings from the general public, thus promoting competition, efficiency and access (AMFI 2014). It is, therefore, expected that the microfinance industry to play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the Kenyans. Many Kenyans do not prefer to have bank accounts. Those who have bank accounts either have little or no savings. This makes it hard for them to access loans from the banks. For this reason, Microfinance Institutions in Kenya play a crucial role of bridging this gap (Wafula, Mutua, & Maniagi. 2016)

According to Ongaki, (2012), Microfinance Institutions offer small (micro) loans to customers who cannot access conventional financial aid from banks. The nature and functioning of these institutions vary depending on the purpose as well as targeted groups. That is, some Institutions are based on gender and strictly offer micro financing services to such gender. Although they are an alternative to banks, some of them operate as extensions of large investment banks. By doing this, people living in under-developed regions can access the banks' funding through these Institutions run by the banks (Gatuhu, 2013). A study by Ongaki (2012) to examine the determinants of financial sustainability of deposit taking MFIs in Kenya, found that there is a positive relationship between profitability and financial sustainability.

Mang'unyi (2016) carried out a study to explore the ownership structure and Corporate Governance and its effects on performance of firms. His study focused on selected banks in Kenya. His study revealed that there was significant different between Corporate Governance and financial performance of banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and those regulatory agencies including the government should promote and socialize Corporate Governance and its relationship to firm performance across firms. Miring'u and Muoria (2018) analysed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

II. THEORETICAL REVIEW

Fred Fiedler developed contingency theory in 1964. It is the study of organizational behaviour in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. Contingency theory is used to describe the relationships between the context and structure of internal control effectiveness and Financial Performance, especially reliability of financial reporting. The location of information in relation to technology and environment has an important influence on organization structure. In uncertain environments with non-routine technology, information is frequently internal. Where environments are certain, or where technology is routine, information is external. The dimensions of structure and control include authority structure and activities structure, i.e., rules and procedures that determine the discretion of individuals. Authority relates to social power. In the contingency model, decentralized authority is more appropriate where uncertain environments or non-routine technology exist. Centralized authority is more appropriate when environments are certain.

The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability achieve internal control effectiveness analysis and that the firm benefit from the organizational effectiveness via internal control mechanism efficiency. Identified some factors, which management control systems; these are external environment, technology, structure and size, strategy and national culture (Cadez & Guilding, 2008)

This theory equips leaders with tools which are essential in the analysis of firm technicalities without going to specifics on how such a firm is to be managed (Hartman, 2010). Although a firm can have a good leadership backed by good central management, if departments are not synchronized well, there can be instances of firm failure in executing the corporate mandate (Rue & Byars, 2004).

The theory suggests that the demands imposed by technical tasks in the organization encourage the development of strategies to coordinate and control internal activities. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and consider variables to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for

the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

III. EMPIRICAL REVIEW.

Channar, Khan and Shakri, (2015) sought to establish the effectiveness of Internal control and the relationship with financial performance. They Sampled 210 respondent employees from 6 Banks in Hyderabad from public sector, private sector and Islamic banks comprising of two per grouping. Five components of internal control were measured against three profitability ratios of financial performance. Both primary and secondary data were collected using questionnaire and from the financial statements of the sample banks for a period of four years respectively. The financial performance used were Return on Asset (ROA), Return on Equity (ROE), Profit Expense Ratio (PER). Using the Statistical Package for Social Scientists (SPSS) to analyse data, the correlation and one-way ANOVA were obtained. This showed that internal control effectiveness was strongest in private banks, public banks and Islamic banks in order of significance. Private Banks had higher level of financial performance than public banks while Islamic banks returned a low financial performance. The researcher concluded that internal control effectiveness has a positive relationship with the financial performance of the banks.

Eniola and Akinselure (2016) investigated the effect of internal control on financial performance of firms in Nigeria and focused on selected manufacturing firms. The researchers used the non-probability sampling method to administer 150 questionnaires to employs of five manufacturing firms. Multiple regression was used in data analysis obtained from a Statistical Package for Social Scientists (SPSS) tool. Fraud was used to measure financial performance as it represents an extra cost of ineffectiveness. The results demonstrated that there was a strong negative relationship between internal control effectiveness and fraud as a measure of financial performance. The study recommended that management should institute effective strategies to ensure internal control is effective and efficient to reduce fraud instances in their organization.

Ali (2013) did a study on the relationship between internal control and organizational financial performance of People's Bank of Zanzibar Limited (PBZ). He examined the effectiveness of internal controls used in PBZ, to ascertain how the level of performance in PBZ is attributed to internal control at PBZ. Qualitative data was collected and a cross sectional survey was used on 60 employees selected on Simple random approach. Both primary and secondary sources was used and the data was presented in tabular form, pie charts and bar graphs with frequencies and percentages. The results were generated using the Statistical Package for Social Sciences (SPSS) tool for analysis. The findings indicated that there was a significant positive relationship between internal controls and organizational financial performance and recommended that the management of PBZ should continually evaluate the design of their internal control system to maintain effectiveness and positive performance.

Wanjiru (2013), investigated the effects of Corporate Governance on the financial performance of listed companies at the Nairobi Securities Exchange. The study focused on the board size, board composition, CEO duality and leverage and their effect on financial performance of listed Firms. The observations were that Firm performance measured using Return on Assets (ROA) and Return on Equity (ROE) in a descriptive research design on all Companies at Nairobi Securities Exchange as at December 2012. From the secondary data collected on documentary information from Company annual accounts for the period 2008 to 2012 were subjected to both descriptive and inferential statistics and analysed using a multiple linear regression model. A strong positive relationship between board composition and firm financial performance was deduced. Further to this observation on board composition experience, skills and expertise of the board members mattered more than whether the directors were executive or non-executive. Leverage showed to have a positively effect on financial performance of listed insurance firms. Separation of the role of CEO and Chair was significantly positive to the financial performance.

Ng'etich (2017) in his study determined the effect of internal control system on the financial performance of firms listed at the Nairobi Securities Exchange. He found that the control environment, risk assessment, effective communication, monitoring, leverage, liquidity and firm size are appropriate measures in determining performance for listed firms. He established that these variables had a positive and significant relationship to performance. He recommended that use of updated technology in measuring and reporting these variables in a timely manner will significantly assist in improving performance of a firm.

IV. METHODOLOGY

Research Design

A research design is an outline for collection, measurement and analysis of data. It guides the entire research process (Sreevidya & Sunitha, 2011). The study used a mixed research design. Creswell and Plano (2014) defines mixed research design as a method which focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and

qualitative approaches, in combination, provides a better understanding of research problems than either approach alone (Creswell, 2014).

Population of the Study

Population refers to the entire group of individuals, objects or things that share common attributes, from which the researcher seeks to find information. The target population is the entire group of individuals, objects or things that share common attributes and to which results will be generalized (Kombo & Tromp, 2006). This study targeted all the 8 microfinance institutions found in Eldoret as per Table 1.

Table 1: Population tabulation

Respondents	Population
Kenya Women Finance Trust (KWFT)	45
Faulu Microfinance	35
Choice Microfinance Bank Ltd	18
Uwezo Microfinance Bank	15
Musoni Microfinance Insitution	21
Rafiki Microfinance Bank	16
Momentum Credit	12
Century Microfinance Bank	10
Totals	**172**

Sample and Sampling Technique

A Census of the 8 microfinance institutions was conducted and Yamane's (1967) formula was used to determine the sample size. For a 95% confidence level and e = 0.05, size of the sample should be is determined by the formula below.

$$\mathbf{n} = \frac{\mathbf{N}}{\mathbf{1+N(e^2)}}$$

In the above formula, n is the sample size, N is the accessible population size and e is the level of precision. Accordingly, the sample size is shown below.

$$\text{n} = \frac{172}{1 + 172(0.05)^2} = 120.2 = 120$$

The sample size thus was therefore 120 respondents as calculated by Yamane's formula above. This was from the accessible population frame as tabulated in 1.

Data Collecetion Instrument

The researcher used questionnaire as the main research instrument. According to Mugenda & Mugenda (2003), the elements in the questionnaire have to address the specific objective of the study and the research questions. The questionnaire made use of the structured (closed-ended) questions. Data was collected using questionnaires. The questionnaires were easy to administer and were low cost (Mugenda & Mugenda, 2003). The respondent had time to read the questions, think and then provided the answers. According to Kothari (2011), the questionnaires allow for assessment of a large number of respondents, meaning that the outcome will be highly reliable (Kothari, 2011). The scores by the respondents in the questionnaire will be determined using the Likert Scale. The responses were assigned numbers ranging from 1 up to 5 where Strongly Agree is represented by 1, and strongly disagree represented by 5.

Data Collection

The collection of data was through the administering of self-administered questionnaires. The researcher sought the consent of Jomo Kenyatta University of Agriculture and Technology and the management of commercial banks in Eldoret town. The researcher then visited the institutions under study with the intention to gain permission to distribute the questionnaires. According to Kothari (2008), questionnaires are more objective and can gather information in a structured way compared to interviews. The questionnaires were favored because they were easy to administer and they collected a wide range of information.

Data Processing and Analysis

The data analysis was based on both descriptive and inferential models and it included the use of the standard deviations, percentages and the relative frequencies. The descriptive statistics applied in the analysis of the qualitative data while the Statistical Package for Social Sciences (SPSS version 23) aided in the analysis of quantitative data (Mugenda & Mugenda, 2003). Diagnostic tests were also carried out to check as to whether the data met the assumptions of the regression model.

Kothari (2008) defines analysis as computation of measures together with searching for relationships within the groups of data. Analysis involves operations conducted with intention of summary of the data collected and organizing it in a manner that answers the questions in the research.

In the study, the data was edited, coded, classified and tabulated using SPSS. The SPSS analysis was based on the multiple regression equation below:

$$Y = \beta_0+\beta_1X_1 + \varepsilon$$ **……..……..** **Equation 1**

Where, Y represents the dependent variable, α represents the constant, β1 represents the coefficient of the independent variable, X1 represents the independent variable, and ε represents the error term.

V. RESULTS AND DISCUSSION

Response Rate

In this study, 120 questionnaires were administered on the sampled respondents who participated in the study out of personal consent. 104 questionnaires were duly filled and returned to the researcher and research assistant. This represented 86.67% response rate. A response rate of 50% is adequate for analysis and reporting. A rate of 60% is good but 70% and above is very good. The response rate of 86.67% was therefore very suitable for the study as it was way above the 70% threshold desired for external validity (Kothari & Garg, 2014)

Reliability Test Results

This study assessed the internal consistency of the research questionnaire. The results of analysis are shown in Table 2.

Table 2: Reliability of the Research Questionnaire

Variables	Cronbach's Alpha	Test Items
Internal Control Procedures	0.885	3
Performance	0.821	4

The results implied that the research questionnaire met the threshold as all the constructs had Cronbach's alpha coefficients greater than 0.7.

Background Information

The study sought background information from the respondents. This included gender, age, duration in the institution and level of education.

Distribution of respondents by Gender

The study also examined how accountants and internal auditors of institution were distributed according to their gender. The results of the analysis are presented in Table 3.

Table 3: Gender of the respondents

Gender	Frequency	Percentage
Male	62	59.6
Female	42	40.4
Total	**104**	**100**

It was established that 62 (59.6%) respondents were male while 42 (40.4%) were female. This shows that the sampled respondents were fairly balanced in terms of gender. The findings thus implied that gender of the respondents could significantly influence internal control procedures since there is a 19.2% difference in the gender.

Distribution of respondents by Age Category

The study examined the distribution of accountants and internal auditors based on their age categories. Results of analysis are shown in Table 4.

Table 4: Age category of the respondents

Age Category	Frequency	Percent
20-25 years	15	14.4
26-30 years	28	26.9
31-35 years	37	35.6
36-40 years	16	15.4
Above 41 years	8	7.7
Total	**104**	**100.0**

From the findings in Table 4, it can be concluded that the age category of the respondents may have significant influence on internal corporate procedures of the microfinance institutions since most of the respondents were young persons as opposed to the older generations.

Distribution of respondents by Academic Qualification

The study sought to ascertain the educational levels of the sampled respondents. These results are shown in the Table 5.

Table 5: Academic Qualification

Academic Qualification	Frequency	Percentage
Diploma	15	14.4
Degree	77	74.1
Masters	12	11.5
PhD	0	0.00
Total	**104**	**100.0**

The results showed that 77 (74.1 %) respondents were held undergraduate degrees, 15 (14.4%) respondents had the diploma while 12 (11.5%) respondents had masters degrees. The findings also showed that no respondent had a Ph.D. These findings clearly indicate that most of the employees in the institution were degree holders and therefore could make bold and proper decisions on internal control procedures of their respective microfinance institutions.

Distribution of respondents by Duration of service in the institution

The respondents were requested to indicate the period in which they had been in the institution. The findings are shown in the Table 6.

Table 6: Service Duration of the respondent

Years	Frequency	Percentage
< 1 Year	4	3.9
2-3 Years	10	9.6
4-5 Years	30	28.8
6-7 Years	39	37.5
8-9 Years	14	13.5
> 10 Years	7	6.7
Totals	**104**	**100**

The findings showed that highest representation of employees had been in the microfinance institutions for a period of between 6-7 years making them more conversant with the internal corporate procedures of their microfinance institutions.

DESCRIPTIVE FINDINGS AND DISCUSSIONS

The study examined the opinions of the accountants and internal auditors of the institution on internal controls. The findings are in line with five point Likert scale where it ranges from 1 to 5 representing strongly disagree to strongly agree respectively. The statistics used were: minimum, maximum, mean and standard deviation.

Internal Control Procedures

The study scrutinized the opinions of the respondents on Internal Control Procedures. The results of the analysis are shown in Table 7.

Table 7: Descriptive Statistics for Internal Control Procedures

	N	Min	Max	Mean	Std Dev
Our firm has ensured proper monitoring and evaluation for better financial performance	104	2	5	4.10	.807
Our firm relies on proper fraud prevention, detection and control for better decisions that lead to better financial performance	104	2	5	3.89	.891
Our firm has in place a very good financial reporting mechanism which enables better financial performance	104	2	5	3.79	.952
Valid N (Listwise)	**104**				

It was noted from the study that the respondents agreed as to their firm having ensured proper monitoring and evaluation for better financial performance (mean = 4.10; Std dev = .807). The respondents were in agreement with (mean = 3.89; Std dev = .891) that their firms relies on proper fraud prevention, detection and control for better decisions that lead to better financial performance. Respondents also agreed with (mean = 3.79; std dev = .952) that their firms has in place very good financial reporting mechanisms which enable better financial performance. These findings thus by a large extent are supported by the findings on a study carried out by Ali (2013) that indicated that there was a significant positive relationship between internal controls and organizational financial performance and recommended that the management of PBZ should continually evaluate the design of their internal control system to maintain effectiveness and positive performance.

Financial Performance

The study sought to find out views of respondents on control environment. The results are presented in Table 8.

Table 8: Descriptive Statistics for Financial Performance

	N	Min	Max	Mean	Std Dev
Our institution has allowed for proper monitoring by the board of directors to improve on the price per share of the institution	104	1	5	4.02	.975
Our institution has ensured good board remuneration to enable better Returns on Equity	104	1	5	3.94	1.156
Our firm has put into place a sound internal control procedure to enable improvements on the return on equity of the institution	104	2	5	3.49	.881
Our firm is compliant to the various corporate governance practices to bring about good earnings per share of the institution	104	1	5	3.90	1.084
(Listwise N)	**104**				

The study noted that respondents agreed that their institutions have allowed for proper monitoring by the board of directors to improve on the price per share of the institutions (mean = 4.02; Std dev = .975). The respondents also agreed that (mean = 3.94; Std dev = 1.156) their institutions had ensured good board remuneration to enable better Returns on Equity. The respondents were also quite in agreement (mean = 3.49; Std dev =.881) that their firms had put into place sound internal control procedures to enable improvements on the return on equity of their institutions. Yet again, the respondents were in agreement with (mean = 3.90; Std dev = 1.084) that their firms were compliant to the various internal control procedures to bring about good financial performance of their respective microfinance institutions.

INFERENTIAL ANALYSIS

This section outlined the relationship between the various independent variables on the dependent variable. This study conducted correlation analysis and regression analysis between the independent variables and the dependent variable.

Correlation of Study Variables

Correlation between variables is a measure of how the variables are related (Lindquist, Xu, Nebel, & Caffo, 2014). Bivariate correlation is a statistical technique that is used to determine the existence of relationships between two different variables (i.e., X and Y). It shows how much X will change when there is a change in Y. The bivariate Pearson correlation indicates the following: Whether a statistically significant linear relationship exists between two continuous variables. The strength of a linear relationship (i.e., how close the relationship is to being a perfectly straight line). If there is a negative sign this means that you have a negative correlation between the two variables if there is no sign in front then you it indicates a positive correlation. The correlation coefficient shows how strong the linear relationship between two variables are. If the correlation is positive, that means both the variables are moving in same direction. Negative correlation implies, when one variable increases the other variable decreases (Haining, 1991).

Correlation between Internal Control Procedures and Financial Performance

The correlation between Internal Control Procedures and Financial Performance in microfinance institutions in Eldoret, Kenya was examined and results presented in Table 9.

Table 9: Internal Control Procedures

		Financial Performance
Internal Control Procedures	Pearson Correlation	.517*
	Sig. (2-tailed)	.012
	N	104

*. Correlation is significant at the 0.05 level (2-tailed).

The results from Table 9 indicate that there is a positive and statistically significant correlation between Internal Control Procedures and Financial Performance at ($r = 0.602$, $p = 0.012 < 0.01$) at 0.05 level of significance. This implies that Internal Control Procedures significantly affect Financial Performance in microfinance institutions in Eldoret, Kenya in Kenya.

Multiple Regression Analysis

The study established combined effect of Internal Control Procedures on Financial Performance. The results of multiple regression analysis shown in Table 10.

Table 10: Multiple Regression Model Summary

R	R Square	Adjusted R Square	Std Error of the Estimate
.786[a]	.618	.584	.337

a. Predictors: (Constant), Monitoring by BOD, Board Remuneration, Internal Control Procedures

b. Dependent Variable: Financial performance

From Table 10, the R-Squared was used to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable explained by independent variables. From the results on model summary R= 0.786, R- square = 0.618, adjusted R- square= 0.584, and the SE= 0.337. The coefficient of determination also called the R square is 0.618. This implies that the effect of the predictor variables (Internal Control Procedures) explains 61.8% of the variations in financial performance of microfinance institutions in Eldoret, Kenya. This implies that a change in the internal control procedures has a strong and a positive effect on financial performance of microfinance institutions. This study thus assumes that the difference of 38.2% of the variations is as a result of other factors not included in this study.

ASSESSING THE FIT OF THE MULTIPLE REGRESSION MODEL

Multiple regression analysis was conducted to test the influence among predictor variables on financial performance of commercial banks. All the three null hypotheses were tested using F statics. The test results are shown in Table 11.

Table 11: Overall Results of ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1504.373	3	501.458	1576.458	.000[b]
	Residual	32.127	101	.318		
	Total	1536.500[d]	104			

a. Dependent Variable: Financial Performance

b. Predictors: Internal Control Procedures

The findings of the study in Table 11 showed that there was a statistically significant effect of the independent variables on the dependent variable ($F= 1576.458$; $p=0.000$). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that internal control procedures affect financial performance microfinance institutions in Eldoret, Kenya.

T-TEST OF INDIVIDUAL REGRESSION COEFFICIENTS

The t-test was conducted to determine whether the individual regression coefficients were statistically significant. These results were presented in Table 12.

Table 12: T-Test of individual regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.733	.359		4.827	.000
	Internal Control Procedures	.478	.080	.488	5.960	.000

a. Dependent Variable: Financial Performance

Hypotheses Testing of the Results

The study null hypothesis stated that;

Internal control procedures have no significant effect on the financial performance of microfinance institutions in Eldoret, Kenya.

The test was done at 95% level of confidence (α=0.05), critical value t=1.96. T-test statistic was used to test for the significance of ***internal control procedures***. From Table 12, the t -value obtained was t = 5.960 at p = 0.000. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the t-calc > t-α. This study therefore rejected the null hypothesis and concluded that internal control procedures has a significant effect on microfinance institutions in Eldoret, Kenya. The study hence fails to reject the alternative hypothesis.

OVERALL REGRESSION MODEL

Therefore Table 12 shows that the regression coefficients of the independent variable, Internal Control Procedures. Thus the regression equation becomes;

$$\mathbf{Y= 1.733+ 0.478X_1}$$ **Equation 2**

In Table 12, the coefficients refer to the slope of the regression line and amount of variance each predictor contributes to the general regression equation. Therefore a 1 unit change in Internal Control Procedures would lead to a 0.478 units change in financial performance of microfinance institutions. The results implied that Internal Control Procedures (β = 47.8%) affect financial performance of microfinance institutions significantly. Finally, the results in the equation 4.1 also indicated that if microfinance institutions do not implement internal control procedures, the results would be constant at 1.733 units. With these findings therefore, microfinance institutions need to concentrate on internal control procedures since its effect in terms of unit change to the financial performance is significant at 0.478 units.

SUMMARY OF HYPOTHESIS TESTING

From the study, a summary of results for hypothesis testing was done with a significance level of 0.05, such that when the t value is > ± 1.96 the null hypothesis was rejected. The results is shown in Table 13

Table 13: Summary of Results for Hypotheses Testing

Hypothesis	Statements	Sig	Decision rule
$\mathbf{H_{03}}$:	There is no significant effect of internal control procedures on financial performance of microfinance institutions in Eldoret Kenya.	.000	**Reject Null hypothesis**

VI. Summary of Findings

This area contains the summary of the study findings.

Internal Control Procedures and Financial Performance of Microfinance Institutions.

The third objective sought to investigate effect of internal control procedures on the financial performance of microfinance institutions in Eldoret, Kenya. The study indicated that internal control procedures positively and significantly affected the financial performance. It also indicated that internal control procedures is a factor that promotes financial performance of microfinance institutions in Eldoret, Kenya. This study therefore rejected the null hypothesis and concludes that internal control procedures has a significant effect on microfinance institutions in Eldoret, Kenya. The study hence fails to reject the alternative hypothesis.

Financial Performance of Microfinance Institutions

Regarding financial performance, the study indicated that most microfinance institutions have allowed for proper monitoring by the board of directors to improve on the prices per share which however have had fluctuations. These, the respondents attributed to the global economic uncertainties emanating from Corona

pandemic. On the return on equity and returns on total assets the study revealed that microfinance institutions have ensured good board remuneration to enable better Returns on Equity as all the energies are focused on producing results to the betterment of shareholders' equity and assets. This study also found out that microfinance institutions have put into place sound internal control procedures that has enabled improvements on the institutions' earnings per share. These findings indicated therefore that the financial statements of microfinance institutions commonly contain a variety of financial ratios designed to give indications of the institutions integrated performance.

VII. CONCLUSIONS

The study concluded that, internal control procedures significantly affected financial performance of microfinance institutions in Eldoret, Kenya. It was noted from the study that the institutions ensured proper monitoring and evaluation for better financial performance. The findings also revealed that the studied institutions relied on proper fraud prevention, detection and control for better decisions that led to better financial performance. It was also concluded through the results that these microfinance institutions have in place very good financial reporting mechanisms which enabled them to report better financial performances almost every financial year. These findings were in agreement with Channar, Khan and Shakri, (2015) who sought to establish the effectiveness of internal control and its relationship with financial performance. The researcher thus concluded that internal control effectiveness has a positive relationship with the financial performance of the banks.

VIII. Recommendations on policy formulation and practice

Based on the results, findings and conclusions this study recommended that the management of the microfinance institutions should be vigilant on matters internal control procedures. Further, the study recommends on improvement of such internal control procedures in order to create a seamless system that will enable the institutions to run better and therefore enhance performance both in financial and non-financial aspects.

The managers of these microfinance institutions should also train their staff on issues internal control procedures in order to be able to improve on their general financial performance. Further microfinance institutions should create and enhance awareness among institutions on the importance of internal control procedures for routine decision making practices as this is the most used internal governance tool meant for continuous improvement of the institutions.

IX. Suggestions for Further Study

The study determined the effect of internal control procedures on the performance of microfinance institutions in Eldoret, Kenya. However, microfinance institutions in other parts of the world were not assessed. This limits the generalization of the study findings as the results may not be fully replicable in those other areas. The researcher therefore suggests that other studies ought to be carried out in other parts of the world. The study was also limited to the microfinancing sector, therefore future studies should explore the effect of internal control procedures on the performance of other sectors other than banking sector.

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