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Factors Influencing Effectiveness of Internal Control in the Microfinance Sector in Kenya (A case of Mombasa County)

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ABSTRACT

The board of directors and management are continually seeking ways to better achieve their visions and improve accountability. A key factor in helping achieve such outcomes and minimize operational problems is to implement appropriate internal controls. Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. Chapter one of this study gives the background information about micro financing, problem statement, objectives of the study stating on what the researcher intends to achieve, research questions to guide the researchers, justification of the research while chapter two is the literature review. The overall objective of the study was to examine the factors influencing internal control in the microfinance sector in Kenya. The specific objectives: The first of them was to investigate how credit management influence internal control, the second aim was to find out the impact of risk management in influencing internal control, the third was to investigate on how monitoring influence the internal control and; lastly was to determine the importance of control activities in influencing the internal control. This study was conducted in Mombasa county and focused on 4 deposit taking MFIs and 6 non-deposit taking microfinance institutions in the region. The study used primary data obtained through the questionnaires provided to different cadre of employees of those institutions. The researcher employed stratified random sampling procedure; systematic random sampling was used to identify the respondents of the study. Quantitative data collected by use of closed ended questions in the questionnaire were edited and checked for completeness and comprehensibility, summarized, coded and tabulated. The study used descriptive statistics in the analysis of demographics characteristics of the respondents and correlation and regression statistics to assess the study variables relating to the factors influencing the effectiveness of internal control in micro finance sector in Kenya with the help of SPSS 21. The study estblished that credit management provides discipline and structure as well as the climate which influences the quality of internal control, risk management enable the identification and analysis of relevant risks associated with achieving the objectives and ensured right personnel for the job are on board, monitoring helps the microfinance institutions to assess the quality of performance of the microfinance over time and finally control activities ensures that qualified and continuous supervision is provided to ensure that internal control objectives are achieved and that completeness and accuracy of information processing.

Introduction

1.1 Background to the Study

Analysis and practical studies of Lithuanian scientists' works enable to state that there is no one solid concept, definition or description of control. For example, E. Buškevičiūtė (2008) says that when control is more particularly defined, its rules and requirements are described in more detail, it becomes more effective, more specific, more psychologically suggestive, it gives more freedom limits of choice for supervisors and less possibilities of lawlessness for people under control. Identifying the object of the research, it should be noted that different definitions of control are given in scientific studies by Buškevičiūtė, (2008); Drury, (2012); Fardo, N.A (2009); Gupta, (2010).

A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012). While writing a report on Capital Markets Regulators Reign in on Rogue Firms for the Standard Media in May 2013, James Anyanzwa stated that the recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies internal control structures. This research paper is intended to look into the factors that influence internal control in the microfinance sector in Kenya.

"Microfinance" refers to a range of financial services provided to poor clients who are typically unserved or underserved by other financial institutions.

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Microfinance institutions (MFIs) provide loans, savings, insurance, and money transfers to micro-entrepreneurs to support productive activities, build assets, stabilize consumption, and protect against risks. Microfinance activities revolve around providing very small loans to poor people or nations in order to help start a business or fund a social project. Generally, poor borrowers are more likely to apply for loans of small sizes, and thus the lender's transaction costs increase.

Lafourcade et al. (2005) identified three categories of microfinance institutions: regulated (banks, regulated non-bank financial intermediaries, and regulated NGOs); cooperatives (financial cooperatives and credit unions); and unregulated (NGOs, non-bank financial intermediaries, Microfinance Institutions projects, and others). In contrast, Udeaja and Ibe (2006) used the consideration of formality to classify MFIs. They identified the following three forms: (i) Formal MFIs are institutions such as development banks, savings and loans, and non-bank institutions that are governed by general company laws, regulations, and guidelines. (ii) Semi-formal MFIs are those MFIs that are subject to commercial and general company laws, but which are not subject to banking regulations, such as NGOs and cooperatives (thrift and credit societies). (iii) Informal MFIs are 'non-registered groups', such as traditional esusu, that organize thrift and credit services for members. Similarly, Ayayi (2008), in his study of MFIs in Vietnam, classified MFIs into three main categories: formal, semi-formal and informal, based on type of institution, and the regulations and core strategies involved.

Even though some microfinance institutions have moved to individual lending, most of the institutions adopt group lending model program in Grameen Bank. Many economic works on microfinance focus on the incentives induced by joint liability in group lending contracts and nearly all authors have proven that group lending enforces joint liability mechanisms, involves borrowers in sharing information and then reduces asymmetric information as noted by Takahashi, (2010). However, Kono and Takahashi (2010) advance that group lending alleviates the problem of moral hazard only if the group can coordinate its members' decisions and achieves higher repayment rates only if the returns are sufficiently high. According to, Karlan (2007), moral hazard can be reduced also by social sanctions against defaulting borrowers in group members.

1.2 Statement of the Problem

Slanislav (2006) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization. This same idea is reflected in Kaplan (2007), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States in the 1990s, as demonstrated by the collapse of Enron and WorldCom. According to Candreva, (2006) internal controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal controls is not always a simple task and cannot always be accomplished through a short set of quick fixes.

The regularity of fraud and misappropriation of funds is creating fear, anxiety, and a loss of confidence in the minds of customers in microfinance industry. Even though microfinance institutions have helped in eradicating poverty, quite a number of them have been closed attributed to lack of sustainability as a result of poor internal controls especially the non-deposit taking institutions which are not regulated by central bank. Kono and Takahashi (2010) argue that different elements of microcredit, such as group lending solve the problems of asymmetric information in the credit market. However, a large part of MFI does not offer group but just individual loans. Many practitioners of group lending are now turning steadily toward individual lending. This give rise to a very important question: when MFIs is not associated with joint liability lending mechanism and offer just individual loans, how will MFIs manage their credit risk? Thus, the purpose of this study was to examine and evaluate the factors that influence internal control system in Microfinance sector in Kenya in order to minimize fraud cases and losses.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to assess the factors influencing the effectiveness of internal control in micro finance sector in Kenya with specific focus to Mombasa County.

1.3.2 Specific Objectives

However, the study specifically seeks:

1. To assess the influence of credit management on the effectiveness of internal control in Microfinance sector in Kenya
2. To identify the influence of risk management on the effectiveness of internal control in Microfinance sector in Kenya
3. To examine the influence of monitoring on the effectiveness of internal control in Microfinance sector in Kenya
4. To find out the influence of control activities on the effectiveness of internal control in Microfinance sector in Kenya

1.4 Research Questions

1. What is the influence of credit management on the effectiveness of internal control in microfinance in Kenya?
2. What is the influence of risk management on the effectiveness of internal control in Microfinance in Kenya?
3. What is the influence of monitoring on the effectiveness of internal control in Microfinance in Kenya?
4. What is the influence of control activities on the effectiveness of internal control in Microfinance in Kenya?

1.5 Justification of the Study

The justification of this study was to fill significant gaps on the challenges faced by internal controls in microfinance sector. This is because no rigorous attempts have been undertaken to understand this aspect of the internal control enhancement in the industry.

This study is of significance to microfinance institutions in enhancing compliance to set policies and procedures to ensure achievement of set mission and achievement of common focus.

The study will also help the management of MFIs which are not regulated to appreciate the importance of internal control.

It will also help the policy makers to prepare effective policies in internal controls and reporting in the microfinance sector.

Academicians in finance and accounting, legal and other fields will find it helpful in the furtherance of their studies in form of future research and in the operations at their work places.

The study has helped the researcher to acquire knowledge and understanding the techniques of doing research.

1.6 Limitations of the Study

The literature on the subject was not adequate to allow more information gathering about the study.

The study was also affected by non – response from some of the employees contacted and therefore did not give comprehensive information on the controls in place.

1.7 Scope of the Study

This research was carried out in Mombasa County, and questionnaires were distributed to 4 deposit taking MFIs and 6 non deposit taking in the region. The number of the non-deposit institution is higher in the study because they are more disadvantaged as they are not regulated by the Central Bank of Kenya and the overview of all will give an insight on how internal control is necessary for an MFI.

2.0 Materials and Methods

2.1 Introduction

This chapter gives summary information regarding the methodologies adopted and used in this study. It describes the research design, target population, sample design, data collection procedures and methods utilized for analyzing the data.

2.2 Research Design

The study followed a descriptive research design because it seeks to describe the way things exists, Mugenda and Mugenda (2013). Using this design, information on the various factors influencing the use of organization Banking were obtained and studied. This research concentrated more on the factors influencing effectiveness of internal controls in a micro finance organization. Given the nature of the industry, an accurate and precise sample was the representative of the whole population. This also allowed the researcher to gain quality and in depth information. Purposive sampling is appropriate and specifically convenient to use.

2.3 Target Population and Sample Size

Kothari, (2014) defined population as the total collection of elements. In this study the target population was drawn from Faulu, Kenya Women Finance Trust (KWFT), Rafiki DTM, SMEP DTM, ECLOF Kenya, Real People, Jitegemea Credit Scheme, Kenya Agency for the Development of Enterprise and Technology (KADET), Jubilant and Yehu all based in Mombasa County. The microfinances mentioned have 350 employees from various categories of employees. The target population of unit of analysis was six (6) senior management, twenty four (24) branch managers and one hundred and twenty six (126) credit officers thus a total of 156; however the final sample size of seventy six (76) respondents was given as indicated on the table 3.1 below

2.4 Sampling Techniques

The study employed stratified random sampling techniques to develop the sample components. Kothari (2004) discussed that if a population from which a sample is to be drawn does not constitute a homogeneous group; stratified sampling technique is generally applied in order to obtain a representative sample. The researcher therefore analyzed employees of the ten (10) microfinance institutions in units of senior managers, branch managers, credit officers and randomly selecting proportional percentage size from each unit to represent the population.

Table 2.1. Target Population and Sample Size.

Microfinance Institutions	Target Population	% of sampling	Sample Size
Faulu, Kenya	25	7.7%	12
KW FT	30	9%	14
Rafiki DTM,	20	6.4%	10
SMEP DTM	11	3.8%	6
ECLOF Kenya	5	2.6%	4
Real People	6	1.9%	3
Jitegemea Credit	6	1.9%	3
KADET	6	1.9%	3
Jubilant Kenya	19	5.1%	8
Yehu	28	8.3%	13
Total	156	48.6%	76

2.5 Data Sources and Instruments

Research data was collected from primary sources. The primary data was used due to its nearness to the truth and ease of control over errors (Copper and Schindler, 2008). A Questionnaire was used to collect the data. According to Cooper and Emory (2008), a questionnaire is preferred because it is cheaper and quicker to administer, it is above researcher's effect and variability, and is highly convenient for the respondents as they could fill them during free times or when workloads are manageable.

The questionnaire contained demographic profile of respondents, while the main body of the questionnaire focused on 1) effectiveness of internal control in Microfinance; 2) credit management; 3) risk management; 4) monitoring and 5) control activities. Within each of these areas, each respondent was asked to rate or rank on a scale on 1 (Strongly disagree) (2) disagree (3) Neutral (4) Agree 5 (Strongly Agree). Mugenda (2003) observes that Likert scales are used for rating scales because they measure perception and attitude. They consist of numbers and description which are used to run the subjective and intangible components in research on the contribution of the various aspects of the identified factors.

2.6 Validity and Reliability of Research Instruments

2.6.1 Instrument Validity

The study measure content validity. To ensure content-valid data, the researcher began by identifying a domain of indicators which are relevant to the variables of the study. According to Mugenda and Mugenda (2013) a content-valid measure should contain all possible items that should be used in measuring the concept under study. The identified set of indicators were then discussed with the research supervisor and other experts to ensure that it accurately represented the concept of community participation and performance of children protection projects

2.6.2 Instrument Reliability

A pilot study was conducted in order to ascertain and detect any ambiguities, questions that cannot be easily understood or poorly constructed and even those that were irrelevant in the research instrument. The pilot units, equivalent to one-tenth of the proposed sample size, was obtained from comparable members of the population from which the sample for the full study was taken. According to Mugenda and Mugenda (2013) one tenth of the sample size is sufficient for pilot testing. Thus the pilot study was conducted on eight (8) respondents from the sample population who were not included in the final sample. The feedback from the pilot study was obtained through debriefing them individually and comparing the results. The study measured the internal consistency (homogeneity) of the research instrument so as to establish how well each item in the instrument measures the same construct. To do this the study used Cronbach's alpha coefficient with a set lower limit of acceptability of Cronbach alpha 0.7 (Nunnally & Bernstein, 1994).

2.7Data Collection Procedures

Data was collected using structured questionnaire. The questionnaires containing both open and closed ended questions were personally administered to the respondents so as to have an in-depth understanding of how each respondent articulates issues relating to the projects. According to Cooper and Emory (2008), a self - completion questionnaire is conveniently used because it is cheaper and quicker to administer, it is above researcher's effect and variability, and is highly convenient for the respondents as they could fill them during free times or when workloads are manageable. Each respondent received the same set of questions in exactly the same way to be complete and collected after a period of two weeks. During data collection respondents were informed of the purpose of the study, the procedures that to be used to collect the data, and assured that there will be no potential risks or costs involved and that anonymity and confidentiality will be maintained throughout the study and even after the study. In the study, confidentiality was maintained in keeping the data collected confidential and by not revealing the subjects' identities when reporting or publishing the study.

2.8 Data Analysis and Presentation

Quantitative data collected by use of closed ended questions in the questionnaire were edited and checked for completeness and comprehensibility, summarized, coded and tabulated. The study used descriptive statistics in the analysis of demographics characteristics of the respondents and correlation and regression statistics to assess the study variables relating to the factors influencing the effectiveness of internal control in micro finance sector in Kenya with the help of SPSS 21. The model is therefore presented in the equation below.

$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$

Y = Effectiveness of internal control in Microfinance

α = constant

b_{1-4} = Régression Coefficient

X_1 = Credit Management

X_2 = Risk Management

X_3 = Monitoring

X_4 = Control Activities

ε = error term

The model was used to determine if there is a relationship between dependent and independent variables.

Presentation of quantitative data is in form of tables only where it provides successful interpretation of the findings, while qualitative data is presented in form of explanatory notes.

3.0 Results and Discussions

3.1 Introduction

This chapter presents the analysis of study findings on the main objective of the study which was to establish the factors influencing the effectiveness of internal control in micro finance sector in Kenya, based on the specific objectives and answers to research questionnaires pertaining to the effect of credit management, risk management, monitoring and control activities influence the effectiveness of internal control in Microfinance in Kenya. This chapter analyses the variables involved in the study and estimates of the model presented in the previous chapter.

3.2 Presentation of the Findings

3.2.1 Response Rate

The study below shows the response rate

Table 3.1. Response Rate.

Response	Frequency	Percentage %
Filled in questionnaires	61	80.3
Unreturned questionnaires	15	15.7
Total	76	100

Out of the 76 issued questionnaires, 61 questionnaires representing 80.3% of the total questionnaires distributed were returned fully completed, while 15 questionnaires were not returned representing 19.7% of the total questions distributed to the respondents. It can be inferred that the response rate was good. According to Mugenda and Mugenda (2003) a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population.

3.2.2 Demographic Characteristics

The study below shows the demographic characteristics of the respondents.

Table 3.2. Demographic Characteristics.

Question	Scale	Distribution	
		f	%
Gender	Male	39	63.9
	Female	22	36.1
Age	18-25	11	18.0
	26-35	19	31.1
	36-40	25	41.0
	41-50	6	9.8
Level of Education	Secondary	4	6.6
	College	28	45.9
	University	26	42.6
	Others	3	4.9
Designation	Senior Managers	6	9.8
	Branch Managers	21	34.4
	Credit staff	34	55.7
Number of Years in the Organization	0-3	15	24.6
	3-5	21	34.4
	5-10	17	27.9
	10 and above	8	13.1

Results on table 4.2 above indicated that majority of the respondents were male(63.9%), between the age of 26-35(41.0%) , had at least a diploma/certificate level of education (45.9%), are credit staff (55.7%) had worked for a period between 3-5 years (34.4%) respectively

3.2.3 Reasons for Establishing Internal Controls in Microfinance

The study shown on table 4.3 below sought to establish the reason for establishing internal controls in microfinance based on the rating scale of 1-5, where 1- strongly Disagree 2-Disagree 3.Neutral, 4 Agree and 5. Strongly Agree

The study analysis on table 4.3 above shows that majority of the respondents agreed and strongly agreed, indicated by the small variability of the mean, respectively that the reason for establishing internal controls in microfinance institutions was to: reduce the number of employees(Mean=3.71, Standard deviation = .936) , remove unqualified old employees (not technically fit) (Mean=3.604, Standard deviation = .987), to ensure reliability of financial reporting (Mean=3.909, Standard deviation = 1.954), establish effective structure for

Table 3.3. Project Performance.

Project Performance Indicators	N	MEAN	SD
To reduce the number of employees	61	3.711	.936
Remove unqualified old employees (not technically fit	61	3.604	.987
To ensure reliability of financial reporting	61	3.909	1.954
To establish effective structure for service delivery	61	4.002	1.145
To cut down expenses	61	4.117	1.137
To enhance compliance with applicable laws and regulations	61	4.135	1.164
Firing excess staff	61	3.625	1.093
To remove poor performers for performance improvement	61	3.602	.998
To create employment	61	3.592	1.141
To create room for better working conditions	61	3.723	1.192
To Ensure effectiveness and efficiency of operations	61	4.312	1.109

service delivery (Mean=4.002, Standard deviation = 1.145), cut down expenses(Mean=4.117, Standard deviation = 1.137), to enhance compliance with applicable laws and regulations (Mean=4.135, Standard deviation = 1.164), firing excess staff (Mean=3.625, Standard deviation = 1.093), remove poor performers for performance improvement(Mean=3.602, Standard deviation = 0.998), create employment (Mean=3.592, Standard deviation = 1.141), create room for better working conditions(Mean=3.732, Standard deviation = 1.192), and ensure effectiveness and efficiency of operations (Mean=4.312, Standard deviation = 1.109).

Based on the results of the study, it can be concluded that the reason for establishing internal controls in microfinance institutions was to reduce the number of employees, remove unqualified old employees (not technically fit), ensure reliability of financial reporting, establish effective structure for service delivery, cut down expenses, enhance compliance with applicable laws and regulations, firing excess staff, remove poor performers for performance improvement, create employment, create room for better working conditions, ensure hard work and dedication to duty, and ensure effectiveness and efficiency of operations. These results are in line with those of For example, V. Navickas (2011) and P. Gupta (2010), presenting the concept of control, name it not only as one of the main factors that influence the organization's performance and influences its management, but also as one of the assessment means of the taken decisions and achieved values.

3.2.4 How Credit Management Influence the Effectiveness of Internal Control

The study below considers how credit management influence the effectiveness of internal control

3.2.5 How Risk Management Influences the Effectiveness of Internal Control

The study on table 4.5 below shows how risk management influence the effectiveness of internal control

Table 3.5. Risk Management.

Risk Management	N	MEAN	SD
Has enabled establishment of clear, consistent organization objectives	61	3.631	1.094
Has enabled ease in the identification and analysis of relevant risks associated	61	4.224	1.037
Ensures right personnel for the job are on board	61	3.605	1.129
Has established physical control to secure and safeguard vulnerable assets	61	3.813	1.135
Has enabled validation of the propriety and integrity of both organizational and individual performance	61	4.119	1.171
Has ensured transactions are promptly recorded to maintain their relevance and value	61	4.281	1.243

According to the study analysis 4.5 above, majority of the respondents agreed and strongly agreed that risk management: has enabled establishment of clear, consistent organization objectives (Mean=3.631, Standard deviation = 1.094), enabled ease in the identification and analysis of relevant risks associated with achieving the objectives (Mean=4.224, Standard deviation = 1.037), ensured right personnel for the job are on board (Mean=3.605, Standard deviation = 1.129) , established physical control to secure and safeguard vulnerable assets(Mean=3.813, Standard deviation = 1.135), enabled putting up controls for validating the propriety and integrity of both organizational and individual performance measures and indicators (Mean=4.119, Standard deviation = 1.171), ensured transactions are promptly recorded to maintain their relevance and value to management in controlling (Mean=4.281, Stanard deviation, 1.243), evidenced by the small deviation of the mean as can be seen.

Table 3.4. Credit Management.

Credit Management	N	MEAN	SD
It provides discipline and structure	61	4.109	1.159
Encourages group lending.	61	4.017	1.098
Reduces default rate	61	4.182	1.101
Provides a platform for setting and maintaining organization's ethical tone	61	3.712	1.191
Provides guidance for proper behavior	61	3.628	1.255
Provides clear delegation of authority and responsibility	61	3.703	1.289
Enhances maintenance of employee competence	61	3.759	1.234
Enhance provision of constructive counseling, and performance appraisals	61	3.919	1.173
Provides management's framework for planning, directing, and controlling	61	3.763	1.377
Clearly defines key areas of authority and responsibility and lines of reporting	61	3.649	1.208

Based on the findings of the study it can be concluded that risk management: has enabled establishment of clear, consistent organization objectives, enabled ease in the identification and analysis of relevant risks associated with achieving the objectives, ensured right personnel for the job are on board, established physical control to secure and safeguard vulnerable assets, enabled putting up controls for validating the propriety and integrity of both organizational and individual performance measures and indicators, ensured transactions are promptly recorded to maintain their relevance and value to management in controlling . These study findings support the observations of Cielens (2010) that stresses the discipline aspect of risk management that provides strategies, techniques, and an approach to recognizing and confronting any threat faced by an organization in fulfilling its mission.

3.2.6 How Monitoring Influence the Effectiveness in Internal Control

Table 3.6 below shows how monitoring influences effectiveness in internal

Table 3.6. Effect of Monitoring.

Monitoring	N	MEAN	SD
Monitoring is important if the microfinance is to achieve its set objectives	61	4.031	1.209
Monitoring helps to assess the quality of performance of the microfinance over time	61	3.941	1.213
Monitoring helps to determine whether controls under the microfinance are effective	61	4.106	1.207
The microfinance considers audit findings and recommendations and takes adequate management actions	61	3.971	1.267

The study findings show that the majority of the respondents agreed monitoring helps to determine whether controls under the microfinance are effective (Mean=4.106, Standard Deviation =1.207), while minority or the lest of the respondents stated that monitoring helps to assess the quality of performance of the microfinance over time (Mean=3.941, Standard deviation = 1.213).

Based on the results of the study, it can be concluded that monitoring: is important if the microfinance is to achieve its set objectives, helps to assess the quality of performance of the microfinance over time, helps to determine whether controls under the microfinance are effective, covers the evaluation of the effectiveness of the microfinance in achieving set objectives and is the basis of taking adequate management actions. These findings enrich the observations of DiNapoli, (2007) that management should focus monitoring efforts on internal controls and the achievement of the organization's mission

3.2.7 How does Control Activities Influence effectiveness in Internal Control

The study analysis in Table 4.7 below demonstrates how control activities influence effectiveness in internal control**.**

A study of the deviation of the means on table 4.7 above shows that majority of the respondents agreed and strongly agreed that control activities ensures: qualified and continuous supervision is provided to ensure that internal control objectives are achieved(Mean=3.815 Sandard devination = 1.145), ensuring completeness and accuracy of information processing (Mean=3.900, Standard deviation = 1.254) , that actions are taken to address risks in that no one individual should control all key aspects of a transaction or event(Mean=3.803, Standard deviation = 1.220), comparison of actual performance to expected results throughout the organization for effective decision making(Mean=3.670, Standrd deviation = 1.077), work force is provided with the right training, tools, structure, incentives, and responsibilities for effective job execution (Mean=3.829, Standard deviation = 1.090) , Performance evaluation and feedback, supplemented by an effective reward system, are designed to influence organization's success(Mean=3.936, Standard deviation = 1.145)

Based on the results of the study, it can be concluded that control activities ensures that: qualified and continuous supervision is provided to ensure that internal control objectives are achieved; completeness and accuracy of information processing; actions are taken to address risks in that no one individual should control all key aspects of a transaction or event; comparison of actual performance to expected results throughout the organization for effective decision making; work force is provided with the right training, tools, structure, incentives, and responsibilities for effective job execution and ensures that performance evaluation and feedback, supplemented by an effective reward system, are designed to influence organization's success. The study enriches the views of Laura, (2002) that management should track major organization achievements and compare these to the plans, goals, and objectives established under the organizations Performance act.

Table 3.7 Control Activities

Control Activities	N	MEAN	SD
Ensures qualified and continuous supervision is provided	61	3.815	1.145
Ensuring completeness and accuracy of information processing	61	3.900	1.254
Ensures that actions are taken to address risks	61	3.803	1.220
Enhances comparison of actual performance to expected results	61	3.670	1.077
Ensures work force is provided with the right training, tools, structure, incentives, and responsibilities	61	3.829	1.090
Ensures Performance evaluation and feedback, supplemented by an effective reward system, are designed	61	3.936	1.145

3.2.8 Test of Significance

Table 4.8 below also shows the significance of the relationship between community participation (independent variable) and effectiveness of internal control in microfinance (dependent variable).

Table 3.8 Model summary

Model	R	R Square	Adjusted R Square	Df	Sig	Std. Error of the Estimate
1	.628	.394	.319	4	.000	.203

Dependent Variable: Project Performance of child protection projects

The findings on table established a positive correlation coefficient (r), = 0.628, coefficient of determination (r2) = 0.394 and adjusted r squared = 0.319. The (r2) indicated that the variations in credit management, risk management, monitoring and control activities explain 39.4% percent of the variation in effectiveness of internal control in microfinance. On the other hand, the Adjusted R-square shows that 31.9% (Adj R-square=.319) of the variance in the effectiveness of internal control in microfinance can be explained by the variations in credit management, risk management, monitoring and control activities.

Analysis of variance (ANOVA) was used to test the significance of the regression model as pertains to differences in means of the dependent and independent variables as shown on table 4.9 below.

Table 3.9 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.614	4	.426	2.151	.000[a]
	Residual	7.818	37	.220		
	Total	10.432	41			

a. Dependent Variable: Effectiveness of Internal Control in Microfinance

The results of the ANOVA test shown on table 4.18 above produced an F-value of 2.151 which was significant at p=0.00. This depicts that the regression model has a 0.00 % probability of misrepresenting the relationship between effectiveness of internal control in microfinance and credit management, risk management, monitoring and control activities. The variation in the independent variables and dependent variable can be explained by the smaller significance value of 0.000 which is smaller than the significance level of 0.05 implying that there is a (statistically) significant relationship between credit management, risk management, monitoring and control activities and effectiveness of internal control in microfinance hence the study model is significant

The data analysis on table 4.9 shows the influence of Credit Management (CM), Risk Management (RM), Monitoring (M) and Control Activities (CA) on effectiveness of internal control in Microfinance (ICM) based on the following regression model:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + ع$.

This then became:

$ICM = \beta_0 + \beta_1 CM + \beta_2 RM + \beta_3 M + \beta_4 CA + ع$.

Hence: ICM=1.756+ 0.211 CM+0.342RM+0.336M+0.330 CA+ ع.

Table 3.10. Coefficients

Variables	B	Standard Error	Beta	T	P-Value
(Constant)	1.756	0.397		4.426	0.000
resources mobilization	0.211	0.105	0.075	2.009	0 .003
capacity building	0.342	0.170	0.137	2.011	.000
Operation and Maintenance	0.336	0.155	0.322	2.170	0.001
Monitoring and Evaluation	0.330	0.161	0.252	.2.012	0.000

Dependent Variable: Effectiveness of Internal Control in Microfinance

The results shown on table 4.10 above indicate that there is a relationship between credit management, risk management, monitoring and control activities and effectiveness of internal control in microfinance. Therefore taking credit management, risk management, monitoring and control activities constant at zero (0), effectiveness of internal control in microfinance will be 1.756. Hence unit increase in credit management, risk management, monitoring and control activities will lead to 0.211 (21.1%), 0.342 (34.2%), 0.336 (33.6%) and 0.330 (33.0 %) unit increases in effectiveness of internal control in microfinance.

On the significance of the relationship between credit management, risk management, monitoring and control activities and effectiveness of internal control in microfinance, results indicate that the p-values are smaller than the significance level of 0.05 or 1.96. This then indicate that there is a significant relationship between credit management, risk management, monitoring and control activities and effectiveness of internal control in microfinance.

Based on the results of the study it can be concluded that there is a significant relationship between credit management, risk management, monitoring and control activities and effectiveness of internal control in microfinance. These findings enriches the observations of Bown (2004) that internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations

4.0 Conclusion

1. The reason for establishing internal controls in microfinance institutions was to reduce the number of employees, remove unqualified old employees (not technically fit), ensure reliability of financial reporting, establish effective structure for service delivery, cut down expenses, enhance compliance with applicable laws and regulations, firing excess staff, remove poor performers for performance improvement, create employment, create room for better working conditions, ensure hard work and dedication to duty and ensure effectiveness and efficiency of operations.

2. Credit management provides discipline and structure as well as the climate which influences the quality of internal control. It also encourages group lending, reduces default rate, provides a platform for setting and maintaining the organization's ethical tone. It can also be seen that credit management provides guidance for proper behavior and removing temptations for unethical behavior in the organization, while at the same time facilitates clear delegation of authority and responsibility for operating activities, reporting relationships, and authorization protocols. From the study it can be deduced that credit management effectively enhances maintenance of employee competence that allows them to accomplish their assigned duties, provision of candid and constructive counseling. Furthermore credit management ensures effective performance appraisals, provides management's framework for planning, directing, and controlling operations to achieve organization objectives.

3. Risk management has enabled establishment of clear, consistent organization objectives, enabled ease in the identification and analysis of relevant risks associated with achieving the objectives. It has also ensured right personnel for the job are on board, established physical control to secure and safeguard vulnerable assets, enabled putting up controls for validating the propriety and integrity of both organizational and individual performance measures and indicators. Finally it has ensured transactions are promptly recorded to maintain their relevance and value to management in controlling

4. Monitoring is important if the microfinance is to achieve its set objectives as it helps to assess the quality of performance of the microfinance over time and to determine whether internal controls under the microfinance are effective. It also covers the evaluation of the effectiveness of the microfinance in achieving set objectives and is the basis of taking adequate management actions.

5. Control activities ensures that qualified and continuous supervision is provided to ensure that internal control objectives are achieved and that completeness and accuracy of information processing; actions are taken to address risks in that no one individual should control all key aspects of a transaction or event. Control activities enable comparison

between actual performance to expected results throughout the organization for effective decision making; while at the same time availing employee with the right training, tools, structure, incentives, and responsibilities for effective job execution. Control activities enhance performance evaluation and feedback and reward systems ensuring organization's success.

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