

The second aspect of internal controls is risk assessment that looks into the role of the management in identifying, classifying, and managing any risks occurring within the firm. Additionally, there is need to understand its function in escalating the observable risks to prevent any further damages. Without a proper definition of the objectives, identification of risks, and the establishment of proper mitigation plans, it is unlikely that the organization will experience better financial performance. The values posted for the ROA and ROE are sufficient evidence of the opinions leaning towards the establishment of the proper internal controls for better risk assessment. The results are as posted in the table constructed below.

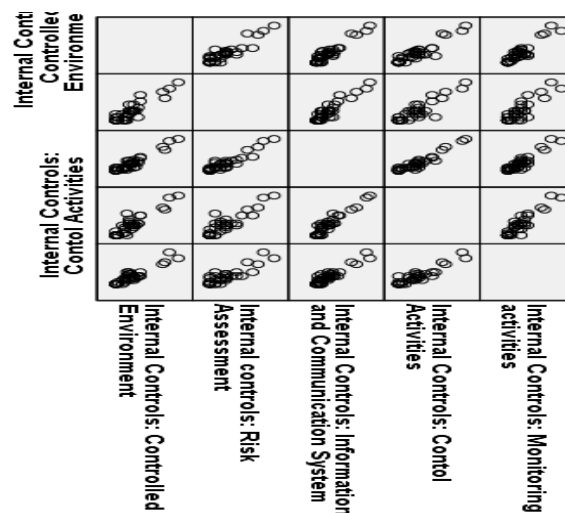
Another aspect is the analysis of the performance of the information and communication systems. The study considered the capability to delegate the duties with an intention to enrich communication among staff, the proper understanding and coordination. Although important for checking organization performance, the control and monitoring activities did not seem to have much influence on the financial performance of the banks. The ROA and ROE did not show any significant difference when analysed according to the opinions of the individuals involved in the study. The overall influence of the elements can also be checked using the bivariate linear correlations containing the different factors defining the internal controls.

Table 4: Reliability Statistics

Factor	Cronbach's Alpha	No of items
Control assessment	.871	6
Risk assessment	.963	7
Information and communication systems	.940	3
Control activities	.963	7
Monitoring activities	.946	6

The values obtained for the Cronbach's Alpha are greater than 0.7, which is an indication of high-level reliability for the five elements used to measure the internal controls of the different banking institutions that participated in the study(Connelly, 2011). When doing the bivariate correlations, the parametric assumptions that need consideration are linearity, homoscedasticity, independence, paired values, level of measurement, and normality. When testing for linearity, the constructed scatter matrix is as shown in the figure below.

Figure 2: Scatter matrix for Internal Control Systems (ICS)



The plotted scatters assume a linear shape for every of the variables used in the construction; hence, sufficient proof for linearity. Secondly, the plotted PP plots to demonstrate

homoscedasticity are as shown. When many of the observations are included in the fitted line, it is sufficient evidence for homoscedasticity.

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Table 5: The correlations of Internal Control Systems (ICS)

Correlations							
	C. Env	Risk Ass.	IC	Control	Monitoring	ROA	ROE
C. Env.	1	.910**	.951**	.920**	.929**	.376*	.389*
Risk Ass.		1	.930**	.896**	.870**	.426**	.435**
IC			1	.950**	.931**	.412*	.425**
Control				1	.926**	.348*	.365*
Monitoring					1	.380*	.383*
ROA						1	.977**
ROE							1

Note: C.Env-Control Environment, Risk Ass-Risk assessment, IC- Information communication, Control- Control Activities, Monitoring- Monitoring Activities

The tabulated values show that there are weak positive relationships between the different internal control variables and the ROA and ROE. The risk assessment, information, and communication systems have the strongest influence (0.425 and 0.435 respectively) on the financial performance of every analyzed banking institution. Further, the control activities have the weakest influence of 0.365 and 0.348 on the ROA and ROA.

The results of the bivariate correlations are also useful in drawing conclusions to the stated hypothesis. The formulated hypothesis aims at examining whether there exists a significant effect between the internal controls and the financial performance of NSE listed banks in Kenya. Every of the defined relationships were significant even though manifesting weak linear relationships.

An ANOVA run for the performance of the different construct variables of the internal controls gave a significant output as shown below. The values obtained, which function to determine the made conclusion are as tabulated. Since the model is significant, then there is need to construct a multiple linear regression model using the parameter estimates obtained for the two variables. The regression model will consist of the five different elements making up the internal controls, to estimate how much of an effect each of the variables is likely to have.

Table 6: ANOVA for Internal Controls

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	ROA	16.321 ^a	5	3.264	1.213	.026
	ROE	432.522 ^b	5	86.504	1.023	.041
Intercept	ROA	187.087	1	187.087	69.51	.000
	ROE	6736.460	1	6736.460	79.65	.000
Controlled Environment	ROA	1.028	1	1.028	.382	.041
	ROE	32.604	1	32.604	.386	.039
Risk Assessment	ROA	1.376	1	1.376	.511	.008
	ROE	35.529	1	35.529	.420	.022
Information and Comm. System	ROA	.040	1	.040	.015	.004
	ROE	.754	1	.754	.009	.025

Control Activities	ROA	.004	1	.004	.002	.019
	ROE	.376	1	.376	.004	.047
Monitoring Activities	ROA	1.360	1	1.360	.505	.023
	ROE	34.074	1	34.074	.403	.003
Error	ROA	83.430	31	2.691		
	ROE	2621.615	31	84.568		
Total	ROA	707.373	37			
	ROE	26940.300	37			
Corrected Total	ROA	99.751	36			
	ROE	3054.137	36			

a. R Squared = .664 (Adjusted R Squared = .629)
b. R Squared = .742 (Adjusted R Squared = .053)

The regression equation therefore is:

$$performance = \beta_1 * controlled\ environment + \beta_2 * risk\ assessment + \beta_3 * IC \square system + \beta_4 * control\ activities + \beta_5 * monitoring\ activities + \beta_0.$$

The parameter estimates indicate the nature of contribution made by the construct variables regarding internal controls.

Table 7: Estimation of Parameters for the Internal Controls' Regression Line

Dependent Variable	Parameter	B	Std. Error	t	Sig.
ROA	Intercept	5.316	.638	8.338	.000
	Controlled Environment	.088	.142	.618	.041
	Risk Assessment	.179	.251	.715	.008
	Information and Communication System	.018	.151	.122	.004
	Control Activities	.007	.175	.040	.019
	Monitoring activities	.162	.227	.711	.023
ROE	Intercept	31.902	3.574	8.925	.000
	Controlled Environment	.495	.797	.621	.039
	Risk Assessment	.912	1.407	.648	.022
	Information and Communication System	.080	.845	.094	.025
	Control Activities	.065	.981	.067	.047
	Monitoring activities	.809	1.274	.635	.030

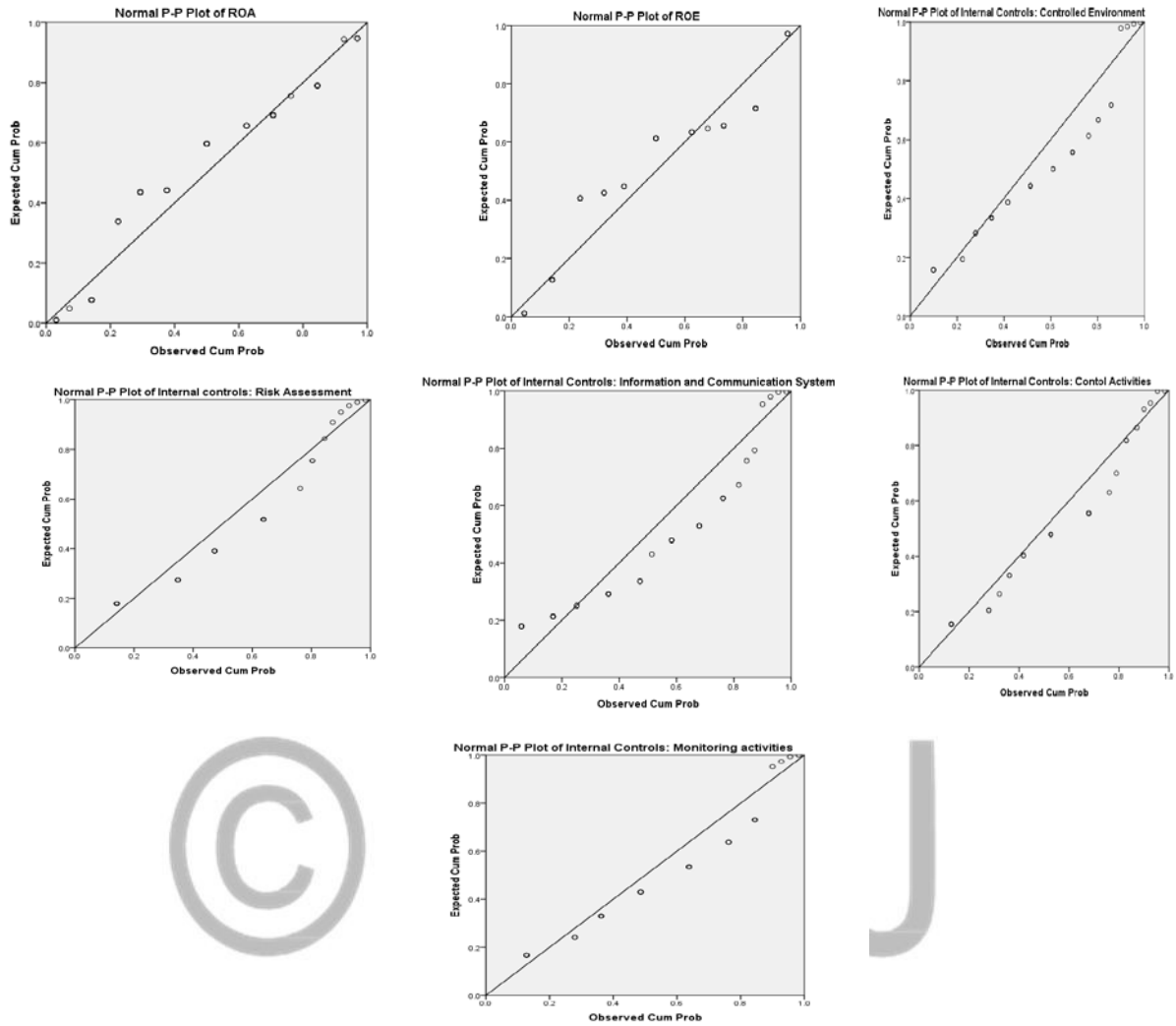
The constructed lines are in the following equations:

$$ROA = 0.088 * controlled\ environment + 0.179 * risk\ assessment + 0.018 * ICT\ system + 0.007 * control\ activities + 0.162 * monitoring\ activities + 5.316$$

$$ROE = 0.495 * controlled\ environment + 0.912 * risk\ assessment + 0.08 * ICT\ system + 0.065 * control\ activities + 0.809 * monitoring\ activities + 31.902$$

In this case, there is sufficient evidence advocating for the rejection of the null hypothesis and acceptance of the alternate hypothesis. This therefore means that the conclusion is that and the internal controls have a significant effect on the financial performance of the banking institutions listed with the NSE in Kenya. All the values of the correlation are significant, which is an indication that the results in the study are not by chance, and can be used to draw inference to every population of banking institutions.

Figure 3: Homoscedasticity for Internal Control Systems



Since the plotted graphs exhibit the requirement, it serves as sufficient evidence for the existence of homoscedasticity. The third assumption is normality, which is measured using the Shapiro Wilk's and Kolmogorov Smirnov Tests(Schmidt & Finan, 2018). The results are plotted in the table below.

SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

3.1 Summary

The general objective was to examine the role of the internal controls on the performance of the banks. When evaluating the control environment, some of the analyzed factors included the capability to detect and manage the occurrence of fraudulent activities, the measurement of the efficacy of the auditors, promoting ethics, and the establishment of operating standards. When viewing the results, 30% indicated a great extent, 55% of the respondents indicated to a very great extent whereas 15% of the respondents indicated to a moderate extent. According to the conducted ANOVA using the ROA and ROE as the dependent variable, every of the construct variables have a role to play in determining the performance of the banks. The significance observed indicates that even in the presence of other external factors, the result will still be significant.

Additionally, the study revealed that the internal controls had a positive relationship with the financial performance. Every of the construct variables of the internal controls also exhibited a

positive relationship with the financial performance of the organization. The results of the study therefore suggest that a unit change in any of the factors grows both the ROE and ROA of the firms positively. Besides these, it is important to note that the included measures have the potential to better the detection of any fraudulent activities. The internal controls: risk assessment and the controlled environment have features in them that are essential in establishing any corrupt activities occurring within the banks.

3.2 Policy Recommendations

Following the conducted research and the conclusions made from the study, the policy recommendations revolve around individual performance, better management practices, and the establishment of a better operating environment.

1. There is need for the internal auditors to upscale their skills by observing the changes in technology and professional regulations regarding the functioning of the internal audit department. Such an approach improves the efficiency of the team while also ascertaining better governance of the firm.
2. There is need for better monitoring within the department to ensure that all actions occur according to the defined procedures. Besides this, the continuous involvement lowers pressure from external factors like the top management, who could influence negative results. The manager has the capability to institute regulations that will ascertain the independence of the internal audit team.
3. As part of bettering the work environment, the management should ascertain the availability of the most recent technology by conducting an audit of the ICT tools. The auditors must also understand the software in use to enable precise execution of their assigned tasks. Further, the management must be aware of the prudential regulations set by the government for improved functionality.

3.3 Limitations of the Study

First, the study relied only one eleven banks from where three or more respondents participated. Unlike the recommended 100 for a sample size, only 38 respondents were available for the study even though the sample was representative.

There was a challenge in obtaining the most accurate data due to the sensitive nature of the required information. Some respondents, even though in the same firm, gave out extremely different information.

The method used to conduct the study is descriptive-correlational research design that does not allow the researcher to manipulate the variables to their liking.

The time constraint and the occurrence of the COVID-19 pandemic made it difficult to reach all the respondents on time during the data collection process.

3.4 Recommendation for Further Studies

The conducted study focused on both the private and public sector by including the National Bank, whose owner is the government. It is now appropriate to conduct a similar study using data from the public sector alone. Another research can consider institutions like schools to establish the nature of their challenges, the influence it has on both student and teacher performance, and the impact of the effective practice of the internal audit structures.

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