

**ASSESSMENT OF THE CONTRIBUTION OF INTERNAL CONTROL SYSTEMS  
ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE  
ORGANIZATIONS IN MERU COUNTY, KENYA**

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## DECLARATION AND APPROVAL

### Student declaration

This research project is my original work and has never been presented for the award of any degree in Mount Kenya University or any other institution.

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### Supervisor approval

The research project has been submitted for examination with my approval as the Mount Kenya University supervisor

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## **DEDICATION**

To my beloved father Godfrey Kajuki and my mother Mary Kajuki

## **ACKNOWLEDGEMENT**

I am sincerely grateful to my supervisor Dr. Gilbert Nyaga whose massive input was vital and assisted me to compile my work as required and coming up with a well-researched proposal. I would also like to be thankful to my lecturers for their continued coaching. Above all, I praise God for the gift of life and making it possible for me to get this far.



Mount Kenya University

## ABSTRACT

In the corporate world, internal control systems (ICS) are invaluable assets, particularly for financial institutions aiming to enhance performance and competitiveness. Savings and Credit Cooperative Organizations (SACCOs) in Meru County, Kenya, have increasingly recognized that robust internal control mechanisms are essential for sustainable financial success. This study examined the impact of key internal control components—control environment, internal control activities, risk assessment, and auditing—on the financial performance of SACCOs in Meru County. The study's objectives were to analyze how the control environment influenced SACCOs' financial performance, examine the effects of control activities, assess the role of risk assessments, and evaluate the impact of auditing. Employing a descriptive research design, the study focused on a target population of 175 SACCO stakeholders, from which a sample of 140 respondents was selected through random and purposive sampling techniques. Primary data were collected through semi-structured questionnaires, and a pilot study was conducted to ensure data reliability and validity. Data analysis included frequencies, proportions, multiple linear regression, and correlation analysis to determine the strength and direction of relationships among the variables. The findings revealed a significant positive correlation between robust internal control systems and improved financial performance of SACCOs. Specifically, effective risk management practices and consistent auditing were associated with enhanced financial outcomes, underscoring the importance of these controls for financial stability and growth. Based on these insights, the study recommended that SACCOs in Meru County strengthen their internal control frameworks, particularly through comprehensive risk assessments and regular audits, to ensure improved governance and financial sustainability. In conclusion, this research underscored the necessity for SACCOs to adopt tailored internal control strategies that not only safeguard assets but also enhance overall financial performance. These findings contribute valuable knowledge to the field of financial management within SACCOs and provide a foundation for policy adjustments to strengthen governance practices in similar financial institutions.

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## **CHAPTER ONE: INTRODUCTION**

### **1.0 Overview of the Study**

This study investigated the role of internal control systems in enhancing the financial performance of Savings and Credit Cooperative Organizations (SACCOs) in Meru County, Kenya. Internal control systems, which included procedures and practices designed to safeguard assets, manage risks, and promote accountability, were essential for financial institutions aiming to ensure stability and growth. Effective internal controls contributed to accurate financial reporting, operational efficiency, and regulatory compliance—qualities that were especially vital for SACCOs operating in a dynamic financial environment. The primary objective of this research was to explore the extent to which internal control components, including control environment, control activities, risk assessment, and auditing, influenced the financial performance of SACCOs in Meru County. By examining these aspects, the study aimed to provide insights that could guide SACCOs in implementing better governance practices and achieving sustainable financial health. The following sections outline the research context, starting with a detailed background on the significance of internal controls for financial performance

### **1.1 Background of the study**

Globally, financial institutions consider internal control systems (ICS) as crucial for achieving sustainable financial performance, especially in increasingly complex business environments. These systems help institutions meet financial and operational goals by managing risks, protecting assets, and supporting regulatory compliance. Effective internal controls are particularly valuable in a competitive, regulated landscape where they enhance

transparency and accountability (Muteke, 2017). Without robust controls, organizations risk inefficiencies, financial mismanagement, and potential non-compliance, which can threaten organizational stability.

### **Historical Perspective**

Historically, the concept of internal controls has evolved alongside the development of financial institutions, with SACCOs embracing structured governance frameworks to address member needs and secure financial performance. Globally, SACCOs emerged as member-driven cooperatives to promote financial inclusion, offering savings and loans to communities. However, incidents like the WorldCom scandal in 2002 and Enron in 2001 highlighted the critical role of strong internal controls in preventing financial mismanagement and maintaining institutional trust (Kivuvo & Olweny, 2021; Shelton & Whittington, 2021). These events underscored the need for SACCOs and other financial institutions to implement structured ICS to prevent fraud and protect member investments.

### **Theoretical Perspective**

The theoretical foundation of this study is grounded in agency theory and systems theory. Agency theory posits that organizations need controls to manage potential conflicts of interest between managers (agents) and members (principals) in SACCOs. Internal controls serve as a framework to align agents' actions with organizational objectives, thereby safeguarding member interests (Jensen & Meckling, 1976). Meanwhile, systems theory views SACCOs as integrated entities where each component, such as internal controls, must work cohesively to enhance financial performance. In this view, ICS are crucial for supporting the operational and financial functions that drive SACCO success.

### **Conceptual Perspective**

Conceptually, internal controls consist of various mechanisms, including control activities, risk assessments, and regular audits, that organizations implement to monitor processes and ensure compliance. Controls are broadly categorized as financial and non-financial. Financial controls involve measures like cash handling and payment processing, while nonfinancial controls cover areas such as human resource management and compliance with operational guidelines (Reid & Ashelby, 2002). For SACCOs, internal controls are indispensable in ensuring reliable financial data, preventing resource wastage, and maintaining accurate records (Ogetange, 2017). Strong internal controls thus foster transparency, accountability, and trust, which are essential for SACCOs' performance.

### **Geographical Perspective**

Regionally, SACCOs in Africa and specifically Kenya play a vital role in promoting financial inclusion and mobilizing savings. The SACCO sub-sector in Kenya has grown significantly, with deposits reaching Ksh. 241 billion in 2017 (SASRA, 2018). Despite this growth, SACCOs in Kenya, including those in Meru County, face challenges due to weak internal controls, leading to issues like fraud and asset mismanagement. For instance, the Harambee SACCO incident in 2018, involving unaccounted funds exceeding Ksh. 300 million, highlighted the potential consequences of inadequate internal controls (SASRA, 2018). Such cases underscore the urgent need for SACCOs in Meru County to strengthen internal controls to safeguard assets and maintain member confidence.

Magara (2018) highlights that successful financial institutions rely heavily on strong and elaborate internal control structures, particularly in managing financial activities. These control systems are essential for overseeing critical financial operations such as payments

and cash receipts, which are pivotal to the overall stability and functionality of an organization. Financial operations, according to Magara, are sensitive but fundamental, serving as the backbone that supports other business activities. Without proper financial controls, an organization risks compromising not only its financial stability but also its ability to manage other operational areas efficiently.

The sensitivity of financial activities stems from their direct impact on liquidity, solvency, and the organization's ability to meet its obligations. Strong internal controls ensure that financial transactions are accurately recorded, funds are properly allocated, and any discrepancies are quickly identified and addressed. This creates a solid foundation for other departments, enabling smooth operations across the organization. Magara's view underscores the centrality of financial controls in the overall internal control framework, emphasizing that they are not just important for financial health but for the holistic success of the institution.

Njenga and Mwangi (2020) extend this discussion to developing economies, where rapid economic and financial changes present both challenges and opportunities for organizations. As capital markets expand and financial institutions grow, these organizations are increasingly required to develop robust internal control procedures to maintain competitiveness and improve financial performance. In such dynamic environments, internal controls help financial institutions manage risks associated with rapid growth, regulatory changes, and economic volatility. By strengthening these procedures, financial institutions in developing economies can raise the standard of their financial performance and adapt to the evolving market landscape.

The role of internal control systems in financial institutions, particularly in developing economies, cannot be overstated. Effective internal controls help manage financial operations, ensure compliance with regulations, and safeguard against financial mismanagement. As financial institutions grow and markets evolve, robust internal control structures are critical for maintaining financial health and supporting overall organizational operations. By focusing on both financial and operational controls, institutions can improve their resilience and adapt to changing market conditions, ultimately enhancing their longterm sustainability and success.

### **1.1.1 Global perspective of internal control systems**

The application and utilization of internal control measures in the management of contemporary financial organizations is gaining prominence as part of the greater efforts towards financial accountability and organizational performance at macro-economic level (Lee et al., 2016). This increased interest is essential for improving resource usage that encourages effective utilization of resources to spur growth and development of the organizations. Global financial institutions must devise efficient internal control systems to tackle financial management issues arising from global integration, local difference, and global innovation (IMF, 2020). To stay competitive, these institutions have had to come up with innovative ways to improve internal control efficiency and global flexibility, including the use of technology and computer-supported systems.

According to Kinto, Hussinki, and Vanhala (2018), multinational corporations utilize both technological and organizational processes to implement novel strategies and advanced process technologies that lead to improved financial performance. In order to serve the public interest, the International Auditing and Assurance Standard Board (IAASB), an independent

organization, facilitates the convergence of national and international standards and sets high standards for internal control, auditing, quality control, reviews, and other assurance. This improves the standard and consistency of practice globally and boosts public trust in the field of global internal control (Whelch, 2011). Derek (2016) observed differences in internal control standards between American and Britain-based companies. Whereas financial institutions in Britain maintained error and fraud detection as their primary purpose, American financial institutions' internal control systems continued to advance in this direction.

In order to show their overall success, the institutions prepare financial statements of their operations. For the objectives of truth and fairness in reporting, auditors review these financial statements in accordance with industry standards. The World Council of Credit Unions (2019) affirmed that a lack of internal control or a lack of effective internal control is primarily to blame for a number of fraudulent acts and subpar work, which in turn results in subpar work and a failure to realize value for money in financial reporting by American organizations. The accounting scandal involving \$3.8bn loss by American-based company WorldCom in 2002 was as a result of accounting loophole resulting from internal control systems (Kivuvo & Olweny, 2021).

The other notable cases in the United States of America include, alleged fraud cases like Lehman and Brothers of 2007-2008 and Enron scandal of 2001 which involved dubious accounting practices causing bankruptcy and subsequent dissolution of the firm (Shelton & Whittington, 2021). Saving and Credit Co-operative Societies are ideally conceived to be autonomous association. They are association of persons who voluntarily unite with the aim

of meeting their common economic, social, and cultural needs. These aspirations to meet their needs are achieved through a jointly-owned and democratically-controlled enterprise. Regulatory and legal authority to operate autonomously require that they are duly registered with the Department of co-operatives (SACCO Societies Regulatory Authority, 2011). In Western Europe alone approximately 11,000 local and regional saving and credit cooperatives banks have been established and operate on these conditions of autonomy and need to fulfil members economic and social needs. These SACCOs boasts over 56,000 outlets, a 33 million strong membership with more than 400,000 staff helping with operations of the logistics around management of SACCOs. The SACCOs account for at least 17 percent of savings in the share market. This ranks them at the third after the commercial and savings banks (Johnston, 2004)

### **1.1.2 Regional perspective of internal control systems**

In the African context, many firms are recognizing the importance of implementing robust internal control techniques as a strategy to enhance their financial management effectiveness. As businesses operate in an increasingly dynamic and competitive landscape, adopting these controls becomes essential for sustainable growth and stability. Companies are leveraging advanced technologies to refine their internal processes and gain insights into their operations. Nair and Munusami (2020) highlight that firms are investing in cuttingedge tools and solutions that not only streamline their financial operations but also foster adaptability in a rapidly changing environment. This strategic focus on internal controls is critical for organizations aiming to navigate the complexities of modern business successfully.

The integration of technology plays a pivotal role in the effectiveness of internal controls. By employing sophisticated software and systems, organizations can automate financial

processes, reducing the likelihood of errors and fraud. The use of data analytics allows firms to gain real-time insights into their financial health, enabling better decision-making. As firms acquire information through technology, they can identify potential risks and inefficiencies in their financial management practices. This proactive approach to internal controls not only safeguards organizational assets but also improves overall financial performance. By embracing technological advancements, firms can enhance their ability to meet financial obligations and respond swiftly to market changes.

Research and development also contribute significantly to the effectiveness of internal control systems. Organizations that prioritize R&D can innovate and adapt their internal control frameworks to align with emerging trends and best practices. This commitment to continuous improvement allows firms to stay ahead of the competition while ensuring compliance with regulatory requirements. By fostering a culture of learning and innovation, businesses can develop internal controls that are not only effective but also flexible enough to accommodate future challenges. This ongoing evolution in internal control practices is essential for maintaining financial integrity and driving long-term success in the African business landscape.

According to Ibrahim, Diibuzie and Abubakari (2017) internal control measures prevents losses, enhances accountability and ensures that resources are effectively utilized to promote development projects and service delivery to their clients. Properly instituted systems of internal controls keep the organizations on the right track and this helps improve their financial performance (Njenga&Mwangi, 2020). The International Finance Reporting Standard (IFRS) as an independent body has greatly aided in reviewing and improving the caliber of financial statements in many African countries.

However, a number of scandals resulting from accounting and internal control issues have been reported. In Nigeria, the scandal involving the chief financial officer of Cadbury Nigeria P/C resulted in his dismissal in 2006 after it was alleged that he had been exaggerating the company's profits for years prior to the acquisition of majority stakes by foreign partners (Soaga, 2020). According to Mawanda (2018), weak internal control mechanisms in government institutions and cooperative societies are to blame for corruption scandals and unethical financial activities that have been observed in the Uganda National Social Security Fund, the Ministry of Trade Industry, and cooperatives.

### **1.1.3 Local perspective of internal control systems**

In the Kenyan context, Savings and Credit Cooperative Organizations (SACCOs) play a vital role in providing financial services to their members, promoting savings, and facilitating loans for various needs. However, many SACCOs have faced severe challenges related to inadequate internal control systems. These deficiencies have resulted in substantial financial losses due to fraud and mismanagement of assets that could have otherwise generated income. The lack of robust controls exposes SACCOs to various risks, including the possibility of financial misconduct, operational inefficiencies, and ultimately, a decline in member trust. As these organizations struggle with oversight and governance, the consequences can be detrimental, leading to diminished financial health and sustainability. A particularly illustrative case is that of Harambee SACCO, where the mismanagement of funds raised serious alarms regarding the efficacy of its internal control systems. According to records compiled by the SACCO Societies Regulation Authority (2018), Harambee SACCO's management was unable to account for over Ksh 300 million. This staggering amount highlights not only the financial implications of poor internal controls but also the

potential erosion of stakeholder confidence in SACCOs as trustworthy financial institutions. Such incidents have broader ramifications, leading to increased scrutiny from regulators and diminishing the reputation of SACCOs in the financial sector. Members may begin to withdraw their savings or be reluctant to engage with these institutions, further exacerbating the financial instability.

The challenges faced by SACCOs, as evidenced by the Harambee SACCO incident, underscore the urgent need for effective internal control systems to mitigate risks and safeguard member investments. Strengthening these controls is essential for ensuring that SACCOs can operate efficiently and transparently. Implementing comprehensive internal control frameworks can help detect discrepancies early, prevent fraudulent activities, and enhance overall governance. By doing so, SACCOs can better protect their assets and investments, ultimately improving financial performance and member satisfaction. The development of sound internal controls will not only contribute to the sustainability of individual SACCOs but will also bolster the integrity and reliability of the entire sector in Kenya.

Ogetange (2017) asserts that maintenance of strong internal control system increases the dependability and reliability of financial data, prevents errors; reduce wastage and helps in keeping accurate accounting records in an organization. However, notable instances of fraud and financial scandals involving corporates and financial institution have been primarily caused by inadequate internal control mechanisms or lack of robust internal control mechanisms (SASRA, 2019). According to Duncan and colleagues (2018), SACCOs in Kenya are crucial to the mobilization of financial resources and, consequently, to the achievement of Kenya's 2030 goal.

According to Kibui and Moronge (2018) Sacco sub-sector contribute significantly to the Kenya's social economic development given that Sacco savings mobilization represents 31 per cent of the national savings. SACCOs remain one of the most significant players in providing financial services to Kenyan families and businesses. According to the report by SASRA (2018) the total deposits for the SACCO subsector has seen tremendous increase over the years. For instance, the total deposits hit Ksh. 241 billion which represented 8.4% increase in 2017 from Ksh.213 billion in the previous year.

However, despite this growth, Out of the 7,400 registered SACCOs equivalent to 42% of all co-operatives, only 3800 are active and 215 have Front Office Service Activities offering basic banking services across the country (SASRA, 2011).this growth, the SACCOs still find many financial, management and administrative challenges resulting from internal control systems hence affecting their performance, sustainability and success. Farmers, educators, and small-business traders who operate in various markets within the agriculturally prolific County of Meru comprise the membership that owns, governs, and manages SACCOs.

## **1.2 Statement of the problem**

Savings and Credit Cooperative Organizations (SACCOs) are integral to financial inclusion and economic development in Kenya, providing essential financial services to businesses and households, particularly in rural and underserved areas. In Meru County, SACCOs significantly support the financial well-being of members who rely on them for savings, credit, and other financial services. Despite their importance, SACCOs in Meru County face critical challenges in achieving and sustaining strong financial performance. Financial

instability within these institutions not only threatens the security of members' funds but also undermines the long-term viability of the SACCOs themselves.

The financial performance of SACCOs is highly dependent on effective internal control systems that can minimize risks, safeguard assets, and ensure reliable financial reporting. However, in Meru County, there are significant gaps in the implementation and management of these controls, leading to persistent issues such as fraud, financial mismanagement, and weakened member confidence. Studies conducted in other regions, such as Nairobi and Mombasa, have demonstrated that SACCOs with weak internal controls experience higher incidences of financial mismanagement, which in turn leads to declining financial performance and erosion of trust among members (Kiragu, 2019; Mumanyi, 2021). This pattern is evident in Meru County, where SACCOs are similarly vulnerable due to limited technology access, high implementation costs, and inadequate training for management teams, all of which hinder the effective application of internal controls.

The magnitude of the problem is underscored by cases like Harambee SACCO, where over Ksh 300 million went unaccounted for due to poor oversight and weak control mechanisms (Kibui & Moronge, 2018). Such incidents have sparked concerns among stakeholders and raised questions about the reliability and transparency of SACCO operations in Meru County. Despite efforts to establish internal controls, challenges such as governance inefficiencies, financial irregularities, and ineffective monitoring mechanisms persist, resulting in recurrent financial losses and reduced SACCO profitability.

These issues bring to light the probable causes of underperformance, which include inadequate risk management, lack of systematic auditing, and insufficient compliance with regulatory frameworks. Additionally, there is a lack of clarity regarding the specific ways in

which internal controls influence the financial performance of SACCOs in Meru County. Without a clear understanding of these dynamics, SACCOs remain at risk of continued financial instability, putting member savings and trust at further risk.

This study seeks to address these gaps by exploring the relationship between internal control systems—specifically control environment, control activities, risk assessments, and auditing practices—and the financial performance of SACCOs in Meru County. By examining how each component of internal controls impacts performance outcomes, the study aims to provide actionable insights for SACCOs in Meru County, guiding them in implementing effective governance practices that can enhance financial sustainability. The findings of this research will not only contribute to the academic understanding of internal controls in SACCOs but will also offer practical recommendations for policymakers and SACCO leaders, fostering greater accountability, transparency, and financial resilience within Meru County's SACCO sector.

### **1.3 Purpose of the study**

It is to investigate how aspects of internal control systems affect SACCOs' financial performance in Kenya's Meru County.

#### **1.3.1 Specific objectives**

- i. To assess the influence of the control environment on the financial performance of SACCOs in Meru County, Kenya.
- ii. To examine how internal control activities affect the financial performance of SACCOs in Meru County.
- iii. To determine how risk assessments influence the financial performance of SACCOs in Meru County.
- iv. To evaluate the role of auditing in enhancing the financial performance of SACCOs in Meru County.

## **1.4 Research Questions**

- i. What is the influence of control environment on the SACCOs' performance in Meru County, Kenya?
- ii. How do internal control activities affect SACCOs' performance in the County? iii. What is the influence of risk assessments on performance of SACCOs in the County?
- iv. What is the impact of auditing on SACCOs' performance in the County?

## **1.5 Justification and significance of the study**

### **1.5.1 Justification of the Study**

The research findings from this study will hold significant implications for the governance of Savings and Credit Cooperative Organizations (SACCOs). By elucidating the relationship between internal controls and financial performance, the study aims to provide valuable insights that policymakers will leverage to develop informed and sensible policies. Such policies will be crucial for promoting the appropriate application and utilization of internal controls within SACCOs, ultimately enhancing their financial outcomes. As financial institutions play a pivotal role in the economic landscape, ensuring that they operate efficiently and transparently will be essential for fostering trust and stability in the sector.

The insights garnered from this research will be particularly relevant for policymakers at both county and national government levels. With a clearer understanding of how internal controls contribute to financial performance, these stakeholders will formulate policies that are not only reactive but also proactive in addressing potential challenges faced by SACCOs. This strategic approach will be vital for the sustainable growth of these organizations, ensuring that they remain robust and resilient in an ever-evolving financial environment.

Consequently, the study's findings will inform the creation of frameworks that encourage best practices in financial management, thereby supporting the overall health of the cooperative sector.

Furthermore, the outcomes of this research will serve as a foundational reference for future studies focusing on transparency and accountability in financial institutions. As the study highlights the critical role of internal controls, it will set the stage for additional research that delves deeper into related themes, such as governance, risk management, and the ethical implications of financial practices within SACCOs. By provoking discussions and drawing attention to the importance of internal controls, the findings will inspire further exploration into other areas that may not have been the primary focus of this study, enriching the academic discourse surrounding cooperative financial institutions.

The significance of this research will extend to enhancing the knowledge of Kenyan SACCOs regarding internal controls and their direct correlation with financial performance. By shedding light on this relationship, the study will cultivate a more informed understanding among SACCO managers and stakeholders about the value of implementing robust internal control systems. This knowledge will be instrumental in fostering a culture of accountability and diligence, which can lead to improved operational practices and financial health. As the findings circulate within the cooperative community, they will encourage discussions that ultimately contribute to the enhancement of financial performance across the sector.

### **1.5.2 Significance of the Study**

The implications of this study will be particularly salient in the context of Meru County, where the results will provide actionable insights for improving financial performance

throughout the region. By identifying the relevant controls that contribute to better financial outcomes, the study will assist local SACCOs in refining their governance structures and operational practices. This localized focus will not only benefit the individual organizations involved but also contribute to the broader economic development of the region. In this way, the study's findings will act as a catalyst for positive change, reinforcing the essential role that internal controls play in achieving the financial goals of SACCOs in Kenya.

As SACCOs strive to enhance their financial performance, the research will highlight the necessity of integrating effective internal controls into their operational frameworks. This integration will empower managers and boards to make more informed decisions regarding resource allocation and risk management. By emphasizing the importance of robust internal controls, the study will encourage SACCOs to adopt best practices that promote financial stability and accountability. Ultimately, this will foster a culture of continuous improvement within the sector, benefiting not only the individual SACCOs but also the wider community they serve.

The findings will also have implications for training and capacity-building initiatives within the SACCO sector. By illuminating the connection between internal controls and financial performance, the study will underscore the importance of equipping SACCO personnel with the necessary skills and knowledge to implement effective control systems. Training programs will likely be developed to enhance understanding and execution of internal control measures, thereby improving overall operational efficiency. This emphasis on education will contribute to building a more competent workforce that can navigate the complexities of financial management within SACCOs.

## **1.6 Scope of the study**

In view of the research objectives, the following aspects: control environment, internal control activities, risk assessment and auditing will all be highlighted in this research. Only SACCOs located in Meru County will be the subject of this investigation. Both licensed and non-licensed by SASRA existing in Meru County will be explored with respect to their internal control systems and how they are instituted by their management.

## **1.7 Delimitations of the Study**

Delimitations are limits that researchers choose to impose on their work in order to ensure that study's objectives are practicably achievable (Theofanidis & Fountouki, 2018). This study focused solely on the internal control systems instituted in the County. This is a result of the study's specific objectives and the paucity of data in relation to Saccos in the region. To ensure a representative sample, participants were selected randomly from this population. Random sampling helps to minimize bias and increase the general picture of the study's findings.

Study investigated several variables related to the contribution of internal controls. These variables included control environment, internal control activities, risk assessment and auditing. The researcher ensured that these variables were clearly defined and easily understood by the respondents. This approach facilitated effective data collection, as participants were able to provide accurate and meaningful responses.

By focusing on these specific aspects of internal controls on financial performance and using random sampling, the study aimed to gather information that can be relied on and that would contribute to a better understanding of the controls on Sacco's and impact in Meru County.

There may be many internal control aspects contributing to their performance; but the researcher will concentrate on the selected aspects of internal control systems and how they contribute to the performance of Meru based Saccos

### **1.8 Assumption of the study**

This study was based on several key assumptions that were critical to the accuracy and reliability of its findings:

#### **Participant Honesty and Data Integrity**

The study assumed that all participants, including SACCO managers, employees, and members, provided accurate, honest, and complete responses. The validity of the study's conclusions depended on the reliability of this information, as responses reflecting true insights into the SACCOs' internal controls and financial performance were essential for meaningful analysis. To support this assumption, the study was designed to create a trusting environment where participants felt comfortable sharing authentic information without fear of repercussions.

#### **Accuracy of Financial Reports and Statements**

It was assumed that the financial data and reports provided by participating SACCOs accurately represented their financial health, operational performance, and adherence to accounting principles. Reliable financial reporting was crucial in evaluating the relationship between internal controls and financial performance. If financial data had been inaccurate or incomplete, the analysis of internal controls' effectiveness could have been compromised, leading to potentially misleading conclusions. This assumption also presumed that the SACCOs were committed to transparency and accountability in their financial reporting practices.

### **Implementation of Internal Control Systems**

The study assumed that SACCOs had implemented internal control systems that were both active and effective in managing risks, detecting errors, and preventing fraud. This assumption was essential because the study aimed to assess the link between internal controls and financial performance. Without robust internal controls, it would have been difficult to establish a meaningful relationship between these factors. Thus, the study presumed that SACCOs had established basic controls in line with industry standards.

### **Stability of External Factors During the Study Period**

The study operated under the assumption that external factors, such as economic conditions, regulatory policies, and technological advancements, remained relatively stable during the data collection and analysis period. This stability was essential to isolate the effects of internal controls on financial performance, as dramatic external changes could have influenced the study's results. By assuming stable external conditions, the study was able to focus on the internal factors influencing SACCO performance without confounding variables.

### **Consistency in SACCO Operations**

It was also assumed that the internal control practices and operational processes within SACCOs in Meru County were broadly consistent and representative of their usual practices. This assumption was important for generalizing the findings, as it allowed the results to reflect the typical operations of SACCOs in the region. If significant operational variations had existed among the SACCOs, they could have introduced biases that would have limited the study's applicability and broader relevance.

## **1.9 Limitations of the study**

This investigation was limited by the possibility of respondents not being willing to honestly answer the questionnaire items since they contained information they considered sensitive. The researcher minimized this by reassuring the participants that the data they provided would be used solely for the study and kept confidential. The researcher faced difficulties in planning interviews with the interviewees during working hours, as most of them were engaged in fieldwork or scheduled meetings outside the workplace. The researcher responded to this difficulty by seeking a more flexible and adaptable approach to their job schedules in different departments in order to accommodate all respondents. Appointments were scheduled to meet with the selected responders first thing in the morning, when they were least likely to be disturbed.

By incorporating flexibility into the research process, the researcher ensured that the interviews could be conducted at times suitable for when the respondents were available. This approach demonstrated an understanding of the practical constraints faced by the participants and a willingness to accommodate their schedules. This adaptability improved the chances of obtaining comprehensive and accurate responses from the individuals targeted.

The researcher's efforts to work around the challenges of scheduling interviews during working hours by implementing flexible strategies, including early morning appointments, were instrumental in overcoming the issue and successfully engaging the respondents. The researcher had restricted access to information from the general public and financial control institutions due to the need to preserve secrecy, which resulted in strained accessibility to data. In order to establish a close collaboration with officials from the relevant government

institutions, the researcher made a commitment to earn their trust. This was achieved by assuring the officials that sensitive information obtained from the study would remain confidential and would not be disclosed. The researcher emphasized that the information provided by the officials would be used only for the purposes outlined in the study's objectives.

Once the promise was made, the researcher aimed to ensure a safe and secure environment for sharing information. This approach helped build trust between the researcher and the respondents, fostering a collaborative relationship. The respondents could feel confident that their input would be treated with confidentiality and that the findings derived from the study would be used appropriately, aligned with the study's objectives.

Maintaining confidentiality and respecting the trust of the officials was important for conducting ethical research and establishing strong partnerships with entities. Therefore, by clearly communicating these assurances, the researcher demonstrated a commitment to handling sensitive information responsibly and maintaining the integrity of the study.

#### **1.10 Operational definition of terms**

**Internal control system-** is a process that ensures an organization's objectives related to its operational efficiency, reliable reporting, and compliance with rules and guidelines.

**Financial performance-** It is a broad indicator of the financial viability of an organization over time and is useful for comparing SACCOs and other similar organizations in the same industry.

**Savings and credit cooperative organizations (SACCOs) -** Members with a shared interest who include: employers, church members or members of the same community.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter takes a deep dive into the internal control systems and their effects on performance of financial institutions particularly Saccos by reviewing empirical evidences from past studies. It will also present the theoretical review; conceptual framework as well as the recap of literature review. To ascertain the inherent knowledge gaps in studies reviewed, an assessment of the empirical and theoretical literature pertinent to the study objectives would be conducted.

#### **2.1 Empirical Review**

Several studies have examined the relationship between internal control systems and the performance of financial institutions, with particular attention to the context of Saccos. For instance, Orodho (2014) argues that the presence of robust internal control systems enhances the financial performance of Saccos by reducing fraud, improving decision-making, and ensuring compliance with financial regulations. Similarly, Mwangi (2015) found that Saccos that implemented strong internal controls were more likely to achieve higher levels of operational efficiency and financial stability, as compared to those with weaker controls.

In a study on the role of internal controls in managing risks, Njoroge and Wambugu (2016) highlighted that Saccos with comprehensive internal control frameworks were better equipped to mitigate financial risks such as loan defaults and mismanagement of funds. This was corroborated by Mutuku (2017), who demonstrated that the lack of effective internal controls led to significant financial losses and poor performance in many Saccos.

On the other hand, Kibet et al. (2018) conducted a study on the effect of internal controls on the performance of Saccos in Kenya and found that internal audit processes and control

mechanisms significantly contributed to the overall success of these institutions. They argued that Saccos with well-structured internal control systems were more likely to report positive financial outcomes, particularly in terms of profitability and member satisfaction. In contrast, Kimani and Njiru (2019) observed that while many Saccos in Kenya had established internal control measures, the implementation of these controls was often inconsistent. They attributed this inconsistency to inadequate training and resources for staff, as well as a lack of commitment from management to prioritize internal controls, which negatively affected their performance.

Ochieng (2020) conducted a study on the impact of internal control systems on the performance of Saccos in Nairobi, Kenya, and found that internal control systems were strongly correlated with the institutions' ability to maintain financial integrity and transparency. Ochieng's study particularly emphasized the importance of management's role in ensuring the internal control mechanisms were consistently followed, which led to improved operational efficiency and member trust.

In a more recent study, Ngugi et al. (2022) explored how internal control systems influence the financial sustainability of Saccos in Kenya. They concluded that Saccos with well-established systems of checks and balances, including regular audits and risk assessments, were better able to manage financial resources effectively and respond to external economic shocks. Their findings highlighted that a proactive approach to internal control allowed Saccos to adapt more quickly to changes in the regulatory environment and market conditions, thereby ensuring long-term sustainability. However, Kangethe (2021) suggested that the effectiveness of internal control systems in some Saccos was undermined by limited technology adoption. While many Saccos had strong manual control systems in

place, the absence of integrated financial systems and automated processes hampered their ability to track transactions efficiently and in real-time. Kangethe recommended that Saccos should invest in modern technology to enhance the monitoring and execution of internal controls. Simiyu (2023) examined the relationship between internal controls and member satisfaction in Saccos. The study found that Saccos with effective internal control systems were more likely to have higher member retention rates, as members felt secure in the knowledge that their financial transactions were safeguarded. Simiyu argued that transparent and wellcommunicated internal control systems could foster a sense of trust and loyalty among members, directly contributing to the institution's overall performance.

Despite the growing body of research supporting the positive relationship between internal control systems and institutional performance, Adongo and Onchoke (2020) raised concerns about the challenges Saccos face in enforcing these controls, particularly in smaller and rural Saccos. Their study highlighted that limited resources, insufficient staff training, and a lack of awareness about the importance of internal controls were significant barriers to effective implementation in these settings. They called for targeted capacity-building initiatives to address these challenges.

These studies collectively emphasize the critical role of internal controls in the success and performance of financial institutions, especially Saccos, by providing evidence of how these systems help manage risks, enhance efficiency, and improve overall financial performance. However, gaps remain in understanding how the internal control systems in Saccos can be continuously improved and integrated with modern technological advancements to better address emerging challenges.

### **2.1.1 Impact of Internal Control Systems on Financial Performance of SACCOs**

Internal control systems are essential in ensuring the efficient and effective management of financial resources within SACCOs, directly impacting their financial performance. Studies have demonstrated that SACCOs with strong internal controls tend to perform better financially compared to those with weak or ineffective controls. According to Wainaina (2017), internal control systems help safeguard an organization's assets, ensure the reliability of financial reporting, and promote compliance with laws and regulations. This, in turn, leads to improved financial performance as SACCOs are able to minimize risks such as fraud, errors, and inefficiencies. In SACCOs, where large amounts of member savings and loans are managed, robust internal control mechanisms are critical for maintaining financial stability and trust among members.

Several studies have shown that internal control systems directly influence profitability, liquidity, and overall financial health of SACCOs. A study by Bett and Momba (2017) revealed that SACCOs with comprehensive internal controls reported higher profitability due to better management of loans, cash flow, and asset quality. These controls help ensure that financial transactions are accurately recorded, preventing mismanagement of funds, which can erode profitability. Njenga and Mwangi (2020) found that SACCOs in developing economies like Kenya, where financial institutions face dynamic challenges, rely heavily on internal controls to maintain liquidity and operational efficiency. This shows the direct relationship between well-implemented internal controls and financial performance metrics, such as return on assets (ROA) and return on equity (ROE).

In addition, effective internal controls help SACCOs mitigate financial risks, which is essential for their long-term sustainability. SACCOs operate in environments where

financial risks, such as loan defaults, operational inefficiencies, and fraud, can negatively affect their financial standing. Mwachiro (2018) found that SACCOs that implemented strong risk management practices, supported by internal controls, experienced fewer instances of loan defaults and financial losses. Internal controls, such as credit assessments and regular financial audits, play a significant role in reducing these risks and ensuring that SACCOs remain financially viable. Without proper internal control systems, SACCOs are likely to experience financial instability, which can lead to decreased member confidence and a decline in financial performance.

Furthermore, internal control systems contribute to better decision-making and resource allocation in SACCOs. Magara (2018) highlighted that SACCOs with effective internal controls have access to accurate and timely financial information, which aids in strategic decision-making. This ensures that SACCOs allocate resources efficiently, avoid unnecessary expenditures, and invest in areas that enhance growth. For instance, having a system that tracks cash inflows and outflows can help SACCOs manage liquidity more effectively, thus preventing financial shortfalls. As a result, SACCOs with well-structured internal controls are more likely to achieve their financial objectives and improve overall performance compared to those with weak controls (Olumbe, 2016).

### **2.1.2 Internal Controls and Financial Sustainability in Financial Institutions**

The sustainability of financial institutions, including SACCOs, hinges significantly on their effectiveness of their internal control systems. To be financially sustainable means that an institution is able to maintain the health of their financial obligations over a long period of time, ensuring that it can meet its operational obligations and continue to provide services to its members. Research by Muteke (2017) indicates that robust internal controls

contribute to financial sustainability by promoting prudent financial management practices. Effective internal controls help institutions manage their resources efficiently, safeguard assets, and mitigate financial risks, thus laying a solid foundation for sustained financial performance. A study conducted by Njenga and Mwangi (2020) highlights the role of internal control systems in enhancing financial sustainability in developing economies. In environments characterized by rapid economic and financial changes, SACCOs that prioritize internal controls are better positioned to navigate challenges such as increased competition, fluctuating interest rates, and evolving regulatory frameworks. The authors found that effective internal control mechanisms enable SACCOs to maintain operational efficiency, manage liquidity, and make informed investment decisions. Consequently, these organizations are not only able to weather economic uncertainties but also capitalize on opportunities for growth and expansion, further solidifying their financial sustainability. Furthermore, internal controls play a vital role in building stakeholder trust and confidence, which is essential for the financial sustainability of SACCOs. Magara (2018) asserts that transparent financial reporting, supported by strong internal controls, enhances the credibility of SACCOs in the eyes of their members and regulators. When members are confident that their savings are managed responsibly and that the organization adheres to sound financial practices, they are more likely to invest in and remain loyal to the SACCO. This trust is crucial for attracting new members and retaining existing ones, thereby ensuring a stable capital base that supports ongoing financial sustainability.

### **2.1.3 Relationship Between Internal Controls and Risk Management in SACCOs**

The perceived association of internal control systems with risk management in Savings and Credit Co-operative Organizations (SACCOs) is critical for ensuring financial stability and

operational effectiveness. Internal controls provide a structured framework for identifying, assessing, and mitigating risks, thereby enhancing an organization's ability to achieve its objectives. According to Wainaina (2017), effective internal controls help organizations proactively manage risks by establishing policies and procedures that promote sound financial practices and safeguard assets. This proactive approach enables SACCOs to detect and address potential risks before they escalate into significant problems, thereby preserving the integrity and reliability of their financial operations.

One of the primary roles of internal controls in SACCOs is to prevent and detect fraudulent activities, which pose a significant risk to financial institutions. A study by Mwachiro (2018) emphasizes the importance of implementing robust internal control mechanisms, such as segregation of duties, regular audits, and comprehensive financial reporting, to mitigate the risk of fraud. These controls create a system of checks and balances that make it difficult for any single individual to manipulate financial transactions without detection. Consequently, SACCOs that prioritize internal controls are better positioned to minimize the risk of fraud, thereby protecting member assets and ensuring the organization's long-term sustainability. Internal controls are essential for managing operational risks associated with financial transactions and member services. Njenga and Mwangi (2020) point out that SACCOs often face risks related to loan management, cash handling, and compliance with regulatory requirements. By implementing effective internal controls, organizations can streamline their processes and reduce the likelihood of errors or inefficiencies that could lead to financial losses. For example, establishing clear procedures for loan approval and monitoring can help SACCOs ensure that loans are granted to eligible members while minimizing the risk of defaults. Thus, a robust internal control framework serves as a foundation for effective

risk management, enabling SACCOs to navigate the complexities of their operational environments successfully.

The interplay between internal controls and risk management is particularly relevant in the context of evolving regulatory requirements and market dynamics. Magara (2018) notes that SACCOs must adapt to changing regulations and economic conditions to remain competitive and compliant. Internal controls facilitate this adaptability by providing organizations with the tools to assess their risk exposure and respond effectively to emerging threats. By fostering a culture of risk awareness and accountability, SACCOs can leverage their internal control systems to enhance their resilience in the face of uncertainty. This alignment between internal controls and risk management not only safeguards financial resources but also enhances the overall performance and reputation of SACCOs within the financial sector.

#### **2.1.4 Internal Controls as a Tool for Enhancing Operational Efficiency in SACCOs**

Operational efficiency is a critical determinant of the success and sustainability of Savings and Credit Co-operative Organizations (SACCOs). Effective internal control systems play a vital role in streamlining processes, reducing costs, and enhancing the overall productivity of these financial institutions. According to Muteke (2017), internal controls encompass a range of procedures and policies that organizations implement to achieve their operational objectives. By establishing a structured approach to managing operations, SACCOs can ensure that resources are used optimally and that their services are delivered efficiently.

One of the key aspects of internal controls that contribute to operational efficiency is the establishment of standardized procedures for financial transactions. Wainaina (2017) emphasizes that having clear and documented processes for handling cash, approving loans, and processing member transactions helps minimize errors and inconsistencies. For

example, implementing a standardized loan approval process not only reduces the time taken to process applications but also ensures that all members are treated fairly and equitably. This transparency and consistency foster trust among members, encouraging them to engage more actively with the SACCO, which ultimately contributes to improved operational outcomes.

Effective internal controls facilitate timely and accurate reporting of financial performance, which is essential for informed decision-making. Njenga and Mwangi (2020) highlight that regular monitoring and evaluation of financial data enable SACCOs to identify trends, measure performance against established benchmarks, and make necessary adjustments to their operations. This proactive approach allows organizations to respond swiftly to any operational challenges they encounter, such as unexpected declines in revenue or increases in expenses. By leveraging internal controls to enhance their reporting capabilities, SACCOs can foster a culture of accountability and continuous improvement, thereby driving operational efficiency.

The integration of technology into internal control systems has proven to be a game-changer for enhancing operational efficiency in SACCOs. Magara (2018) points out that automated processes, such as online loan applications and digital record-keeping, not only streamline operations but also reduce the risk of human error. The adoption of technology allows SACCOs to process transactions more quickly and accurately while also providing members with convenient access to their accounts and services. As a result, SACCOs can improve their service delivery, meet the growing expectations of their members, and remain competitive in an increasingly digital financial landscape.

Mwachiro's (2018) descriptive study on the Kenya Revenue Authority (KRA) offers critical insights into the significant role of internal controls in enhancing revenue collection. By focusing on medium and top-level managers, the study collected data through closed-ended questionnaires, allowing for a comprehensive analysis of the perceptions and experiences of those directly involved in revenue operations. This approach provided a robust framework for understanding the complex relationship between internal controls and revenue collection outcomes. The findings revealed a strong correlation between the quality of internal control systems and the authority's ability to collect revenue efficiently, highlighting the importance of structured internal controls in financial management.

Wainaina's (2017) assessment of internal controls offers a fresh perspective that transcends the conventional focus on fraud detection and prevention. By emphasizing the importance of accuracy in both financial and operational records, Wainaina positions internal controls as essential mechanisms for safeguarding not just assets but also the integrity of organizational processes. This broader understanding highlights the multifaceted role of internal controls, recognizing their impact on the overall health of an organization. The study suggests that internal controls should be comprehensive, addressing various aspects of operations and financial reporting to enhance overall effectiveness.

Olumbe's (2016) investigation into the relationship between corporate governance and internal controls within Kenya's commercial banking sector offers valuable insights into the mechanisms that underpin effective financial management. By surveying all 45 commercial banks, Olumbe's research revealed that most institutions have adopted various metrics to assess both corporate governance and internal controls. This comprehensive approach signifies the recognition that sound internal control systems are essential for effective risk

management. By integrating these two critical aspects, banks can enhance their overall operational framework, promoting reliability and efficiency in their financial practices.

Herrmann's (2018) assessment of competitive strategies within the European pharmaceutical industry reveals critical insights into the role of effective internal controls in achieving a competitive advantage. The study emphasizes that organizations that successfully implement robust internal control systems, combined with consistent auditing and reporting practices, position themselves favorably in the market. This perspective highlights that internal controls are not merely compliance mechanisms but are integral to strategic management and operational efficiency. By establishing effective internal controls, organizations can enhance their decision-making processes, mitigate risks, and ultimately strengthen their market position.

## **2.2 Theoretical review**

Gabriel (2013) asserts that the theoretical framework elucidates the theory behind the occurrence of the research problem under examination. The investigation will focus on Contingency and Agency Theories.

### **2.2.1 Contingency Theory**

The Contingency Theory, developed by Prof. Fred Fiedler in the 1960s, provides valuable insights into organizational behavior and leadership by emphasizing that there is no one-size-fits-all approach to organizational structure. The theory proposes that the effectiveness of an organization is influenced by how well its contingent factors, such as external environments, technology, and cultural variables, align with its operational goals. According to Jokipii (2016), organizational success depends on how these factors are managed to meet collective objectives. This perspective challenges the notion of a universal organizational model,

asserting that effectiveness arises from tailoring structures and processes to match the specific needs of each organization.

The Contingency Theory also highlights the relationship between organizational performance, context, and internal control systems. To achieve optimal effectiveness, firms must carefully consider contingent factors when selecting and designing their internal control systems. This means that businesses must account for factors such as their external environment, operational complexity, and cultural dynamics when deciding on the most appropriate control mechanisms. By doing so, organizations can ensure that their internal controls are aligned with their unique circumstances and positioned to enhance overall performance.

Cadez and Guilding (2018) support the application of Contingency Theory to internal control systems, arguing that proficient and experienced internal auditors within an organization are more likely to contribute to the effectiveness of these systems. Internal auditors who understand the organization's context are better equipped to implement controls that enhance operational efficiency. Cadez and Guilding also identify several factors—such as structure, national culture, strategy, technology, size, and the control environment—that significantly impact an organization's management control systems. These elements illustrate the complexity of managing internal controls and the importance of customizing them to suit specific organizational needs.

This theory posits the need for organizational leaders must be adaptable, recognizing that internal control systems should evolve in response to changing circumstances. As the external environment, technological advancements, and organizational structures shift, internal controls must also be reassessed and modified to maintain their relevance and

effectiveness. This dynamic approach is crucial because internal controls that once worked well may become obsolete or inadequate as new risks and challenges emerge. The ability to anticipate these changes and adjust controls accordingly ensures that the organization can continue operating efficiently and effectively over time.

The identification of elements such as organizational structure, national culture, and technology as key influences on management control systems highlights the complexity of managing internal controls in a diverse and dynamic world. For example, an organization operating in a technologically advanced environment may need to adopt more sophisticated control systems, while another in a culturally complex environment might need controls that reflect local practices and regulations. Recognizing and responding to these varying influences allows organizations to create more resilient and adaptable internal control systems that support their long-term goals.

### **2.2.2 Agency Theory**

The Agency Theory, introduced by Jensen and Meckling in 1976, conceptualizes a firm as a structure designed to manage contracts and exercise control over opportunistic agents. At its core, the theory addresses the relationship between principals (owners or shareholders) and agents (managers or executives) who are hired to make decisions on behalf of the principals. It emphasizes the potential for conflicts of interest to arise within organizations, particularly between managers, shareholders, and the primary sources of debt financing. According to Agency Theory, the principal-agent relationship can become strained when the interests of these two parties diverge, especially as agents typically prioritize their selfinterests.

The theory suggests that individuals are inherently egoistic and will act primarily in their own best interests, even if that behavior runs counter to the interests of others within the

organization. In the context of a company, this means that agents (such as managers) might make decisions that benefit themselves rather than the shareholders they represent. This can lead to issues like inefficient resource allocation, excessive risk-taking, or unethical behavior, which undermine the company's performance. The misalignment of goals between the principal and the agent creates a governance problem, where the agent's decisions may not always reflect the best interests of the shareholders or other stakeholders.

The agents often possess more information than the principals, giving them an advantage in decision-making. This information asymmetry further complicates the principal-agent relationship, as agents can use their access to critical data to advance their personal agendas without the principal's knowledge. The principals may struggle to monitor and control the actions of the agents effectively, leading to situations where the agent's self-serving actions diverge from the company's objectives. This potential for misbehavior reinforces the need for robust corporate governance mechanisms that can mitigate conflicts of interest and ensure that agents act in the best interest of the principals.

The Agency Theory provides a useful framework for understanding how internal controls influence financial performance. SACCOs operate on a trust-based model where shareholders (principals) entrust managers (agents) to manage their resources efficiently. However, without effective internal control systems in place, this trust can be jeopardized due to the potential for opportunistic behavior from managers. The study's objective is to assess how well-established internal controls can resolve conflicts between managers and shareholders and ensure the financial sustainability and growth of SACCOs in Meru County. Internal control systems play a significant role in keeping in line with the interests of SACCO managers with those of the shareholders.

### **2.2.3 Systems Theory and Internal Control Systems in SACCOs**

Systems theory provides the requisite background for understanding how various components of an organization interact and work together to achieve common goals. In the context of Savings and Credit Cooperative Organizations (SACCOs), this theory emphasizes the importance of viewing the organization as a whole rather than merely a collection of parts. Each element, including internal control systems, member participation, governance structures, and operational processes, plays a vital role in the overall functioning and performance of the SACCO. By adopting a systems perspective, managers can better understand how internal controls are not isolated mechanisms but integral components that interact with other organizational elements to drive efficiency and effectiveness.

Internal control systems in SACCOs serve multiple purposes, including safeguarding assets, ensuring accurate financial reporting, and promoting compliance with regulations. These controls can be categorized into various types, such as preventive, detective, and corrective controls. A systems theory approach encourages SACCOs to evaluate how these different types of controls operate together to form a cohesive internal control environment. For example, preventive controls, such as policies and procedures designed to avoid errors or fraud, must be supported by detective controls, such as audits and monitoring processes, to effectively address potential issues. Understanding these interrelationships can help SACCOs develop more robust internal control frameworks that enhance their overall performance.

### **2.2.4 Institutional Theory and Internal Control Systems in SACCOs**

Institutional theory offers valuable insights into how organizations operate within broader social and cultural contexts. It emphasizes the significance of institutions—defined as

established laws, practices, and norms—in shaping organizational behavior and structure. In the realm of Savings and Credit Cooperative Organizations (SACCOs), this theory posits that internal control systems are not merely technical mechanisms but are influenced by the institutional frameworks surrounding them. These frameworks include regulatory requirements, industry standards, and social expectations that guide how SACCOs design and implement their internal control systems to maintain legitimacy and accountability. The concept of legitimacy is central to institutional theory. SACCOs must align their internal control practices with that of expectations of their members and other stakeholders in the regulatory and social framework so as to gain and sustain legitimacy. This means that the design of internal controls may be driven more by the desire to conform to institutional norms than by purely technical efficiency. For example, a SACCO may adopt specific internal control practices because they are seen as best practices in the industry or because they are mandated by regulatory authorities. By conforming to these expectations, SACCOs enhance their credibility and trustworthiness, which is crucial for attracting and retaining members and ensuring long-term financial stability.

The dynamic interplay between internal control systems and institutional pressures highlights the need for SACCOs to engage in continuous adaptation and learning. As the regulatory landscape evolves and member expectations change, SACCOs must be willing to reassess and refine their internal control practices to remain compliant and relevant. This ongoing process of adaptation not only enhances the effectiveness of internal controls but also strengthens the SACCO's capacity to navigate external challenges and seize opportunities. By embracing the principles of institutional theory, SACCOs can develop

internal control systems that are responsive to their unique institutional contexts, ultimately leading to improved organizational performance and member satisfaction.

### **2.2.5 Stakeholder Theory and Internal Control Systems in SACCOs**

Stakeholder theory posits that organizations must consider the interests and impacts of all parties involved in or affected by their operations, rather than focusing solely on shareholders. This framework emphasizes the importance of engaging with a diverse array of stakeholders—including members, employees, regulators, suppliers, and the community—in decision-making processes. For Savings and Credit Cooperative Organizations (SACCOs), applying stakeholder theory highlights the necessity of robust internal control systems that address the needs and expectations of all stakeholders, thereby fostering trust, accountability, and sustainability.

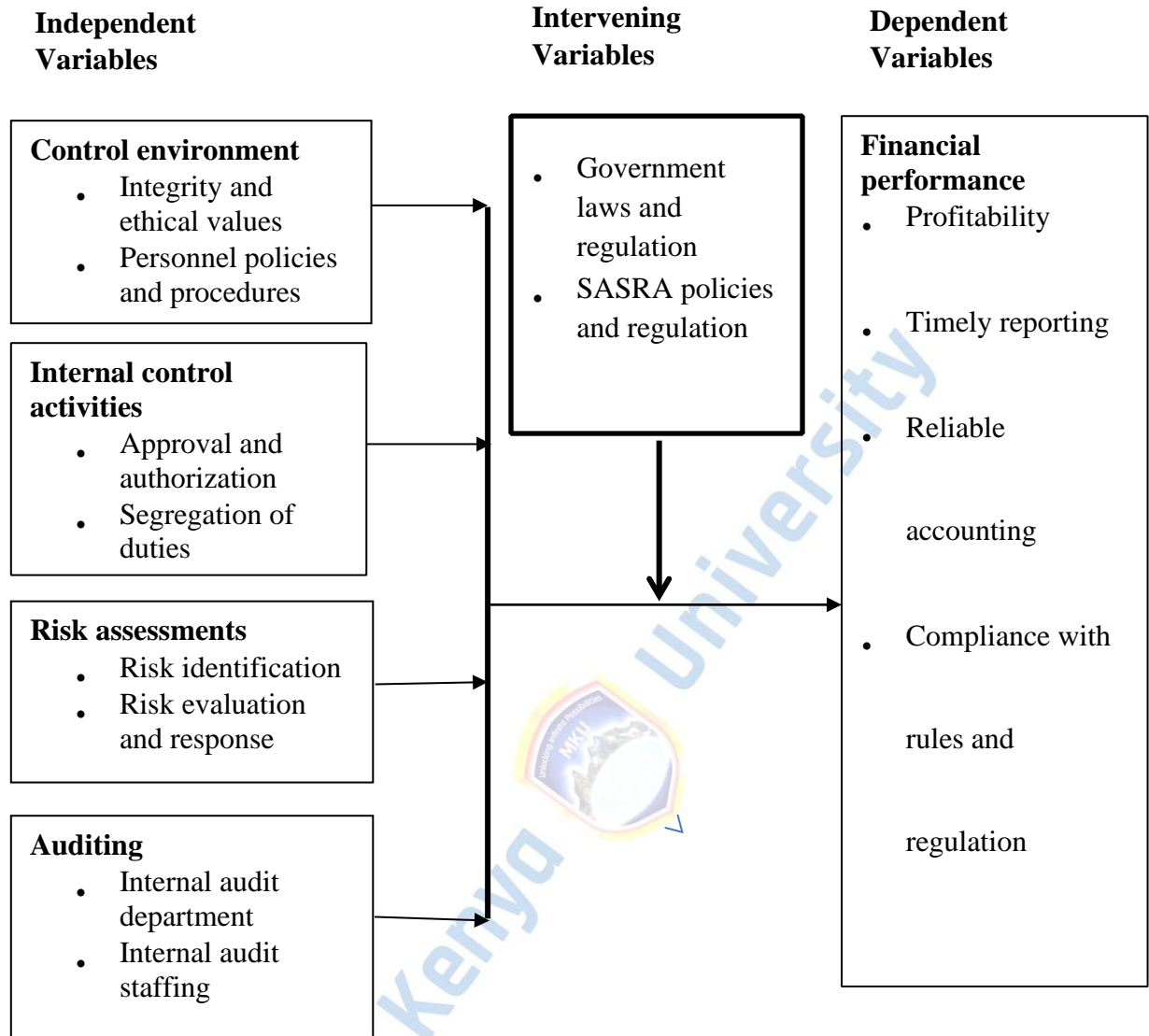
The implementation of internal control systems in SACCOs serves to align the interests of various stakeholders with the organization's operational objectives. By establishing transparent and effective internal controls, SACCOs can ensure that they are managing their resources responsibly and ethically. This not only safeguards the assets of the organization but also enhances the confidence of stakeholders in the SACCO's commitment to sound governance practices. For example, effective internal controls can help prevent financial mismanagement, ensuring that members' savings are protected and that the organization remains financially viable, thereby fulfilling its primary purpose.

Engaging stakeholders in the design and implementation of internal control systems is crucial for their effectiveness. By incorporating feedback and perspectives from various stakeholder groups, SACCOs can develop controls that are more responsive to the specific needs and concerns of their members. This participatory approach can lead to greater buyin

from stakeholders, as they see their interests reflected in the internal control practices of the organization. Furthermore, involving stakeholders in this process can promote a culture of accountability and transparency, reinforcing the SACCO's commitment to ethical behavior and responsible management.

### **2.3 Conceptual framework**

Kombo and Tromp (2009) define a conceptual framework as an assemblage of general ideas and principles derived from related domains of study and utilized to structure a presentation that follows. This conceptual framework illustrates how the independent, dependent, and intervening variables are related to each other.



**Figure 2.1: Conceptual framework**

*Source: Author (2024)*

The researcher will employ the structure to elucidate the link between SACCOs' financial performance and their internal control mechanisms. It shows that the internal control mechanisms that SACCOs implement are what determine their financial performance. The study's independent variables will be control environment, internal control activities, risk

assessment and auditing. Control environment will be determined by factors such as integrity and ethical values and personnel policies and procedures.

Internal control activities will be determined by factors like approval and authorization and segregation of duties. Risk assessment will be determined by factors that include risk identification, risk evaluation and response; while auditing will be determined by factors such as the existence of internal audit department and internal audit staffing. The intervening variables in the study will be both County and national governments rules and regulation and also SASRA policies and regulation. Financial performance will be measured by profitability, timely reporting, reliable accounting and compliance with the rules and regulation.

#### **2.4 Recap of literature review**

The literature review underscored the critical role of internal control systems in improving the financial performance and operational effectiveness of organizations, with a particular focus on Savings and Credit Cooperative Organizations (SACCOs) in Kenya. Studies by Mwachiro (2018), Wainaina (2017), and Olumbe (2016) demonstrated that effective internal controls not only safeguarded assets but also enhanced operational efficiency, financial reporting accuracy, and overall organizational accountability. These studies collectively highlighted how robust internal control mechanisms contributed to improved revenue collection, operational integrity, and fraud prevention, which ultimately supported the achievement of financial objectives.

For example, Mwachiro (2018) found a direct link between the quality of internal controls and revenue collection effectiveness, suggesting that well-structured control systems could

strengthen an organization's ability to meet its financial goals. Similarly, Wainaina (2017) expanded the understanding of internal controls by showing their role in maintaining accurate operational records, thereby facilitating more informed decision-making. Olumbe's (2016) study in the banking sector illustrated the importance of integrating corporate governance with internal control systems, further enhancing their effectiveness and ensuring improved operational reliability.

Despite the valuable contributions of these studies, several notable gaps existed in the literature. Firstly, there was a methodological gap in the research on SACCOs, as many studies had utilized cross-sectional or qualitative approaches, which may not have fully captured the dynamic and evolving nature of internal control systems in SACCOs. Longitudinal studies or mixed-method approaches could have provided deeper insights into the sustained impact of internal controls over time.

Secondly, while the theoretical literature provided insights into general internal control frameworks, there was a gap in applying specific internal control theories tailored to SACCOs. Most of the existing studies relied on general theories of corporate governance or organizational performance, without addressing the unique context of SACCOs, which may have had different governance structures and operational dynamics compared to other financial institutions.

There was a conceptual gap regarding the application of internal control systems specifically within SACCOs, particularly at the devolved unit level. Most studies focused on large or urban SACCOs, and there was limited research on how smaller, rural SACCOs implemented and benefited from these controls. The literature did not sufficiently explore the factors that made internal controls effective in the context of SACCOs in diverse geographical settings,

such as rural versus urban areas, or the challenges faced by SACCOs at different levels of governance.

Geographically, much of the research on internal controls in SACCOs had been concentrated in urban centers or large-scale institutions, with limited studies conducted on SACCOs in rural or less developed regions. This presented a geographical gap in understanding how internal control mechanisms functioned in these different settings, particularly in areas with limited resources or where technology adoption may have been slower.

While existing studies demonstrated the importance of internal control systems in enhancing financial performance and operational efficiency, significant gaps remained in the methodological, theoretical, conceptual, and geographical aspects of research. Future studies should address these gaps by exploring the specific challenges faced by SACCOs in different regions, applying tailored theoretical frameworks, and using more comprehensive and longitudinal research designs.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter outlines the approaches the researcher will use to operationalize the study. It provides an overview of the scientific processes, procedures, and steps involved in conducting the research, along with the ethical considerations that will be adhered to in

addressing the study's research questions. The researcher will follow a systematic approach to data collection, analysis, and interpretation, ensuring the integrity of the study while protecting the rights and well-being of the participants.

### **3.1 Research design**

Kothari (2014) asserts that a research design acts as a roadmap, guiding the study in addressing the research problem. For this investigation, a descriptive research design will be employed. The primary goal of this design is to examine how the internal control system of SACCOs contributes to their financial performance. According to Mugenda & Mugenda (2013), the objective of descriptive research is to accurately portray the current state of affairs as they exist during the period of the study. This design is suitable for gathering detailed information and presenting a clear picture of the relationship between internal controls and financial performance within SACCOs.

### **3.2 Target population**

A target population refers to the entire group of individuals, items, or entities that are of interest to the researcher, and who meet a specific condition that the study focuses on (Asiamah et al., 2017). For this study, the target population is 175 respondents, drawn from SACCOs located in Meru County, Kenya. The researcher will select respondents from various roles within the SACCOs, including chairpersons, treasurers, members, accountants, and SACCO managers. This diverse group is chosen to ensure a comprehensive understanding of the internal control systems in SACCOs and their influence on financial performance.

### **3.3 Location of Study**

The study was conducted in Meru County, Kenya, specifically within the metropolitan area of Meru Municipality, with a primary focus on the Central Business District (CBD). This region is the commercial hub of Meru County and is known for its vibrant economic activities, making it an ideal location for studying SACCOs (Savings and Credit Cooperative Organizations). The Meru CBD houses a variety of businesses and financial institutions, which made it a strategic area for examining the financial practices and operations of SACCOs.

Respondents were chosen from SACCOs situated within this bustling urban environment.

The study specifically targeted key stakeholders involved in the SACCOs, including SACCO chairpersons, treasurers, managers, accountants, and members. These individuals were selected to provide insights into the financial management, decision-making, and overall performance of the SACCOs operating in Meru's central business zone. The researcher ensured that the selected respondents had sufficient knowledge and experience to contribute meaningfully to the study.

### **3.4 Sampling procedure and sample size**

Sampling procedure, as described by Adi (2019), refers to the techniques used by the researcher to select subjects to be included in the sample. For this study, both random and purposive sampling techniques were employed to obtain the desired sample. SACCO leaders were selected purposively because of their in-depth knowledge regarding the operations and management of SACCOs, while SACCO members were randomly selected to ensure a diverse representation. According to Kombo and Tromp (2009), a sample is a subset that

represents the population attributes being studied, which is crucial for the study's generalizability.

Due to limitations in scheduling and budget, 140 participants were chosen, representing 80% of the study population. This approach aligns with Mugenda and Mugenda's (2013) assertion that a representative sample should consist of at least 30% of the total population. By selecting this proportion, the researcher aimed to ensure that the sample was both manageable and sufficiently large to provide reliable and meaningful insights into the internal control systems and their impact on the financial performance of SACCOs.

### **3.5 Data collection instruments**

Adi (2019) asserted that data collection is a process in which the researcher gathers, measures, and examines data. For this study, semi-structured questionnaires were utilized to obtain primary data. According to Marshall and Rossman (2014), questionnaires are considered the most ideal data collection instruments as they allow the researcher to efficiently collect data from large samples. The semi-structured nature of the questionnaires enabled the researcher to combine both open-ended and closed-ended questions, offering flexibility in capturing detailed responses while maintaining consistency across participants. This approach allowed for a more comprehensive understanding of the internal control systems and their impact on the financial performance of SACCOs. The questionnaires were designed to address the specific objectives of the study, ensuring that relevant data was collected in a structured and systematic manner.

### **3.5.1 Validity of Research Instruments**

Validity, as defined by Kothari (2017), refers to the degree to which an instrument accurately measures what it is intended to measure. To ensure the validity of the study's instrument, modifications will be made to enhance accuracy, including adjusting questions to ensure they are aligned with the research objectives, while maintaining the logical order of the questions.

The study will ensure that the three key types of validity—content validity, construct validity, and criterion validity—are addressed. Content validity will be assessed to confirm that the research instruments cover all relevant aspects of the study objectives. Construct validity will be evaluated by ensuring that the instrument accurately measures the theoretical constructs it aims to assess. Criterion validity will focus on determining how well the instrument measures the intended outcome.

To further validate the instruments, the researcher will consult with two experts from Mount Kenya University and one senior departmental researcher. Their input will ensure that the instruments are well-aligned with the research objectives, and that they accurately measure the constructs intended in the study.

### **3.5.2 Reliability of Research Instruments**

Reliability, as defined by Kothari (2017), refers to the degree to which measuring instruments produce consistent results. To ensure more trustworthy findings, subjects will be selected from the SACCOs in Meru County. According to Kothari (2017), the number of items in a research instrument increases the likelihood of obtaining a reliable estimate of the data's reliability.

To assess the reliability of the research instruments, the study will use Cronbach's coefficient alpha model. In this model, a value between 0.1 and 0.6 indicates low reliability, while a value between 0.6 and 1.0 is considered high reliability. A Cronbach alpha score of **0.7** or higher is generally accepted as indicative of an instrument with good reliability.

To ensure consistency in responses, questions will be designed and presented as clearly as possible. The aim is to create an instrument that yields reliable and consistent results, ultimately enhancing the quality and dependability of the data collected for the study.

### **3.6 Data collection procedure**

A data collection procedure is a systematic approach to gathering information, typically utilizing tools such as interview guides and questionnaires (Adi, 2019). In this study, the researcher, with the assistance of research assistants, will administer questionnaires to the participants. The questionnaires will be distributed using the drop-and-pick technique, where the researcher will drop off the questionnaires with participants and later return to collect them.

Before beginning the survey, all participants will receive clear and detailed instructions to guide them through the process. These instructions will ensure that the participants understand the purpose of the study, the type of information being sought, and how to complete the questionnaire accurately. By providing participants with guidance and clarifying any potential questions upfront, the researcher aims to enhance the quality and reliability of the data collected.

### **3.7 Data analysis and presentation**

Data analysis is a procedure that involves the systematic examination of collected data to make it more usable and insightful (Kombo & Tromp, 2009). In this study, the process of preparing data for analysis involved several steps, including cleaning, organizing, and categorizing the data. These steps were essential to ensure that the data was accurate, consistent, and ready for analysis. Furthermore, underlying assumptions were validated, and conclusions were drawn based on the analyzed data.

SPSS version 24 was employed to code and analyze the collected data. SPSS was chosen due to its capability to handle large datasets and its wide range of statistical techniques, which made it suitable for performing both descriptive and inferential analysis. This software allowed the researcher to conduct detailed examinations of the data, ensuring accurate results and efficient handling of the information.

Content analysis was used to analyze the qualitative data. This method allowed the researcher to interpret open-ended responses from participants by identifying recurring themes, patterns, and key insights related to the internal control systems in SACCOs. Content analysis provided a structured approach to understanding the perspectives and experiences of the participants, linking these insights to the research objectives.

For the quantitative data, frequencies and proportions were used to describe the demographic characteristics of the respondents and provide an overview of key variables. This approach summarized the data, making it easier to identify trends and relationships between different factors, such as the financial performance of SACCOs and the implementation of internal control systems. Descriptive statistics were used as a preliminary step before conducting more complex analyses.

The financial performance of SACCOs and the selected internal control systems were compared using **correlation analysis**. This technique was employed to examine the strength and direction of the relationship between these variables. By analyzing the correlations, the researcher was able to determine whether internal control systems had a positive or negative impact on the financial performance of SACCOs.

Finally, an **inferential analysis** was carried out using a **multiple linear regression model**. This approach enabled the researcher to assess the impact of several independent variables (internal control systems) on a dependent variable (financial performance). Multiple linear regression allowed for a deeper understanding of how different internal control mechanisms influenced financial performance, while also accounting for other factors that could potentially confound the results. This analysis provided robust insights into the causal relationships between internal controls and financial outcomes in SACCOs.

The model will have the following structure:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \text{ Where:}$$

Y = Financial performance  $\beta_1, \beta_2$

and  $\beta_3, \beta_4$  = Beta coefficients  $\beta_0$  =

Constant Term  $X_1$  = Control environment

$X_2$  = Internal control activities

$X_3$  = Risks assessments

$X_4$  = Auditing  $\varepsilon$  =

Error term

To ascertain existence of casual link between dependent and independent variables, the test will determine the R2 statistic, F value, and regression coefficient. The test's significance will be evaluated using the p-value, with a crucial p-value of 0.05.

### **Justification of the Method Used for Analysis**

The methods chosen for data analysis in this study were selected to comprehensively examine both qualitative and quantitative data, ensuring the research objectives were met effectively.

Firstly, SPSS version 24 was chosen for its ability to handle large datasets efficiently. As a powerful statistical tool, SPSS offers a wide range of techniques suitable for both descriptive and inferential analysis. It was selected because it allows for accurate coding and analysis, ensuring reproducibility of results. Its capacity to handle extensive datasets is essential for identifying trends and patterns, which are crucial in understanding the relationship between internal control systems and the financial performance of SACCOs.

Content analysis was selected for analyzing the qualitative data. This method is systematic and allows for the identification of key themes, patterns, and insights from textual data. Since the study involved open-ended responses regarding internal control systems, content analysis was ideal for interpreting these responses in depth, enabling the researcher to link participants' experiences to the research objectives.

For quantitative data, frequencies and proportions were used to describe demographic characteristics and summarize key variables. This approach provided a clear overview of the sample's characteristics and financial performance data, offering an initial understanding of the distribution of variables. Descriptive statistics served as a foundation for further analysis, helping to ensure the clarity and comprehensibility of the dataset.

Correlation analysis was employed to examine the relationship between internal control systems and the financial performance of SACCOs. This method was crucial in determining the strength and direction of the relationship between these variables, helping the researcher

assess whether internal control systems have a positive or negative impact on financial performance.

Lastly, multiple linear regression was used for inferential analysis, enabling the exploration of the predictive power of various internal control systems on SACCOs' financial performance. This method was suitable as it allows the researcher to assess the impact of multiple independent variables (internal control systems) on the dependent variable (financial performance). Regression analysis provides deeper insights by accounting for confounding factors and evaluating the strength of the relationships between variables, thereby establishing a more robust understanding of cause-and-effect dynamics.

### **3.8 Ethical considerations**

According to Denscombe (2019), conducting research involves ethical considerations on a daily basis. This research project was no exception. In order to protect respondent data, the researcher adhered to ethical standards and guidelines. Throughout the study, the researcher ensured that informed consent regulations were followed. The rights of the respondents were respected and protected; they were allowed to decline participation and leave the study at any time. The researcher guaranteed that the data submitted by the participants would remain confidential and be utilized exclusively for research purposes.

Complete details regarding the goal of the study and the anticipated length of participation were provided to the respondents. Respect for respondents was demonstrated through the acquisition of prior consent before administering questionnaires. The researcher clearly communicated the purpose and procedures of the study, enabling participants to make an informed decision about their participation. Confidentiality was strictly maintained

throughout the study. Personal information, including the names of individuals who participated, was not disclosed, thus protecting their privacy and preventing any cause for concern.

Lastly, adherence to the principle of voluntary consent was strictly observed. Participants were allowed to engage in the study willingly, without any form of coercion. They were also informed of their right to withdraw from the study at any stage, should they wish to do so. These measures helped ensure the ethical integrity of the study while safeguarding the rights and well-being of the participants. The researcher applied for permits from the National Commission for Science, Innovation, and Technology (NACOSTI), Mount Kenya University, and Meru County SACCO management, among others.



Mount Kenya University

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This study primarily aimed to assess the contribution of internal control systems on financial performance of Savings and Credit Cooperative (SACCOs) within the county of Meru. The analysis presented in this chapter involved the use of descriptive analysis where frequency, mean and percentages were considered. General information was analyzed by descriptive analysis while inferential Statistics, Multiple regression analysis was done to test the dependent (financial performance) and independent variables (control environment, internal control environment, risk assessments and auditing) relationships. This section presents the results derived from the data analysis, using frequencies and percentages to offer a quantitative depiction of the collected data. To ascertain the relationships between the investigated factors, a correlation analysis was conducted to determine the direction and intensity of the associations.

The results of various statistical analyses - including Descriptive Statistics featuring frequencies and percentages, Reliability Analysis, and Correlation Analysis - are presented here. These results were obtained and calculated using the Statistical Package for Social Scientists (SPSS 24.0), which was utilized for data entry and processing. This presentation will enable a comprehensive understanding of the data collected and the findings deduced from it.

## 4.2 Response Rate

140 respondents drawn from Saccos in Meru County participated in the study by answering questions in the semi-structured questionnaires. All the questionnaires were returned making a response rate of 100%.

A 100% response rate was achieved through a combination of careful planning, engagement, and follow-up strategies. The semi-structured questionnaires were distributed to 140 carefully selected respondents from SACCOs in Meru County, with respondents including SACCO chairpersons, treasurers, managers, accountants, and members. Each respondent was chosen based on their relevance to the study, ensuring that they had a vested interest in the research topic. This careful selection increased the likelihood of receiving completed questionnaires.

The researcher employed clear communication to explain the purpose and significance of the study to the respondents, which fostered a sense of participation and ownership. By highlighting the importance of their input for the success of the research, respondents were motivated to complete and return the questionnaires. Moreover, semi-structured questionnaires, which allowed respondents to provide detailed insights while following a structured format, made it easier for them to engage with the survey, reducing the likelihood of incomplete or unreturned questionnaires.

Follow-up mechanisms, such as reminders and consistent communication, were implemented to ensure all respondents returned their questionnaires. This proactive approach contributed to achieving the 100% response rate, which exceeded the minimum response rate requirements set by Bryman & Bell (2007) and Mugenda & Mugenda (1999), both of

whom emphasized that a high response rate significantly improves the quality of statistical analysis and the reliability of the research conclusions.

**Table 4.1 summarizes the response rate in this study**

**Table 4.1 Response Rate**

<b>Questionnaires</b>	<b>Frequency</b>	<b>Percentage</b>
Response	140	100%
Non-response	0	0
<b>Total</b>	<b>140</b>	<b>100.0</b>

### **4.3 Pilot Test Results**

This study involved 8 respondents in pilot testing. This enhanced validity in the instruments used in carrying out the research. Each item was evaluated to ensure they are relevant with the objectives of the study. Cronbach's alpha was used in the testing of reliability and this was done using SPSS. 0-1 is the range of alpha coefficients that is used in the description of the reliability. The questionnaires multipoint was rated with a scale from 1 meaning weak a 5 strong. Strong reliability is enhanced by having higher values. 0.7 is the most appropriate reliability coefficient (Cooper and Schindler, 2008).

For this study, the alpha coefficient was more than 0.7 and this made the researcher to make a conclusion that the research instruments were reliable. The pilot testing involving 8 respondents was significant to the study as it helped ensure that the research instruments were both valid and reliable before the full data collection process began. By conducting this preliminary test, the researcher was able to identify and address any potential issues with the questionnaire, such as unclear wording or irrelevant questions.

This process was crucial for enhancing the accuracy of the data collected during the actual study, ensuring that the responses obtained were aligned with the research objectives. The use of Cronbach's alpha to measure reliability further strengthened the study's foundation, as it quantified the internal consistency of the questionnaire, with a coefficient above 0.7 indicating that the instruments were statistically reliable. This gave the researcher confidence that the data collected would be robust enough to support sound conclusions and interpretations. However, the use of only 8 respondents for pilot testing could be seen as a limitation. While it provided valuable insights, a small sample may not fully capture the diversity or complexity of the larger population.

The feedback from a limited number of participants might not be representative of all potential respondents, leaving the possibility that some issues with the questionnaire could still arise during full-scale data collection. This could limit the generalizability of the pilot test results, although the high reliability score (alpha coefficient > 0.7) provided a strong indication that the instruments were appropriately designed for the study.

The reliability statistics for the study variables are presented in Table 4.2

**Table 4.2: Reliability Results**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>Items</b>
Control environment	0.71	2
Internal control activities	0.79	2
Risk assessments	0.74	2
Auditing	0.75	2

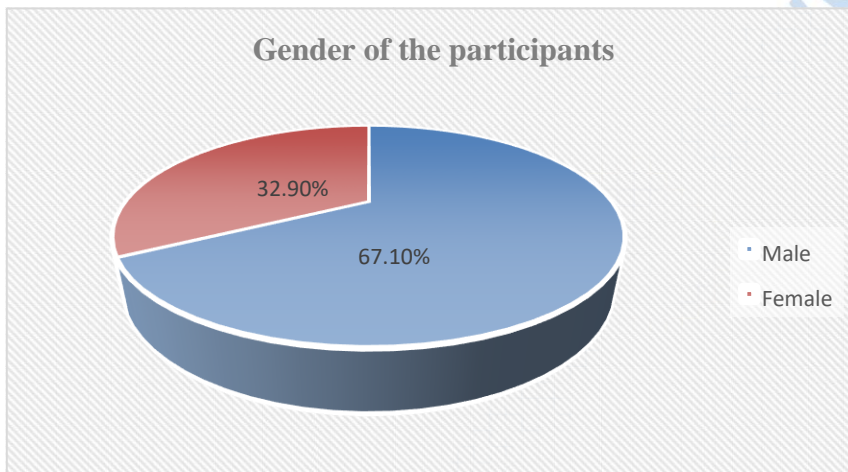
*Source: (Researcher, 2024)*

#### 4.4 General Information

The respondent's information was generated from the data collected in this study and this involved in the study on analyzing the contribution of internal control systems on financial performance of Saccos in Meru County. The section indicated below provided the information for the participants.

##### 4.4.1 Gender of the respondents

The study sought to establish the respondent's gender. Findings on gender distribution of the respondents are as presented in figure 4.1



**Figure 4.1: Gender of the respondents**

*Source: (Researcher, 2024)*

The data presented in Figure 4.1 indicates that 67.1% of the respondents were male, while 32.9% were female. This suggests that the majority of employees in SACCOs within Meru County were male, highlighting a gender imbalance within the workforce. Despite this disparity, the study ensured that both genders were adequately represented, allowing for a comprehensive understanding of perspectives from both male and female employees. This balanced representation is crucial in obtaining a holistic view of the SACCO environment,

addressing any potential gender-related differences in roles, responsibilities, or experiences within these organizations.

#### 4.4.2 Age of the respondents

In the demographic section of the semi-structured questionnaire, the study sought to collect and assess the age distribution of respondents adopted in the study. The results on age of respondent is as presented in table 4.2

**Table 4.2 Age of Respondent**

<b>Age</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 30 years	18	12.8%
31-40 years	35	25.0%
41-50 years	39	27.9%
Above 50 years	48	34.3%
<b>Total</b>	<b>140</b>	<b>100%</b>

*Source: (Researcher, 2024)*

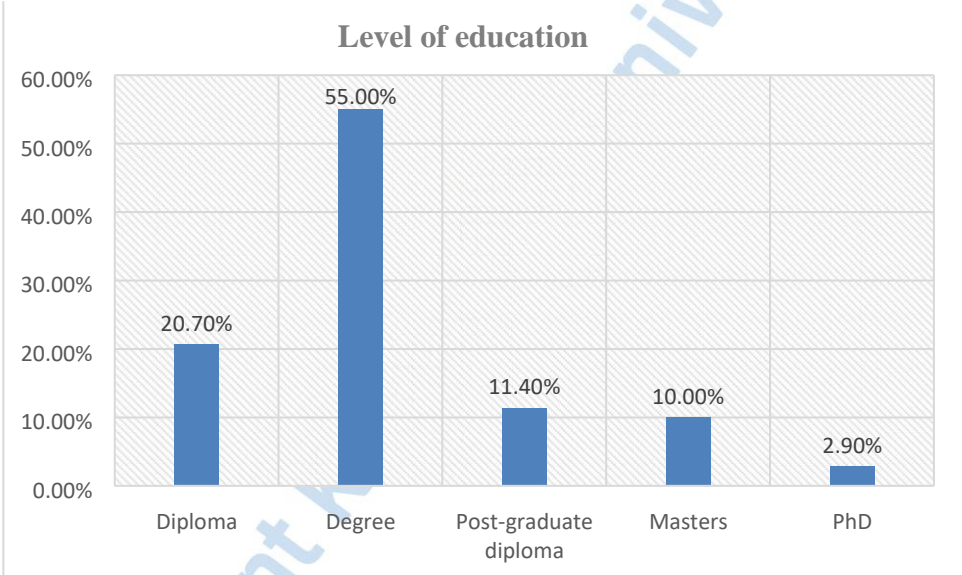
The data in Table 4.2 reveals that the highest of the respondents' proportion were aged above 50 years, accounting for 34.3% of the sample, followed by those between 41-50 years at 27.9%. Respondents aged 31-40 years made up 25.0%, while those under 30 years constituted the smallest group at 12.8%. These findings indicate that the majority of SACCO employees in Meru County were aged 40 years and above, suggesting that older, more experienced individuals dominate the workforce. This age distribution could reflect a preference for retaining experienced employees in SACCOs, while younger individuals are less represented in this sector.

The predominance of employees over 40 years indicates that SACCOs may benefit from the extensive experience and knowledge that this age group brings. These employees are likely to have developed strong financial skills and understanding of cooperative principles, which

can enhance the operational efficiency and decision-making processes within these organizations. Their experience may also contribute to better customer service and relationship management, as older employees often possess more robust interpersonal skills.

### 4.4.3 Highest education level

Respondents in this part were required to indicate their highest academic qualification. Highly educated persons have been tasked to provide direction in the financial institutions, organizations and the society at large. The findings in this section are as presented in figure 4.2



**Figure 4.2 Level of Education**  
Source: *Researcher (2024)*

The findings illustrated in Figure 4.2 indicate that the educational background of respondents in the SACCOs in Meru County varies significantly, with the majority holding a degree, which accounted for 55.0% of the sample. This substantial representation of degree holders suggests that SACCOs prioritize educational qualifications that are associated with higher levels of expertise and competence in financial management and cooperative governance.

The presence of a well-educated workforce may enhance the operational capabilities of these organizations and contribute to more informed decision-making processes.

Following degree holders, the next largest group comprised diploma holders at 20.7%, indicating that a significant portion of employees possess practical and vocational training, which is also valuable in the operational context of SACCOs. The presence of diploma holders may bring diverse skills and experiences to the workplace, contributing to the overall effectiveness of SACCO operations.

Post-graduate degree holders represented 11.4%, while those with master's degrees accounted for 10.0%. These figures suggest a moderate level of advanced education among the workforce, which could enhance the strategic thinking and leadership capabilities within the SACCOs. The small percentage of PhD holders (2.9%) reflects the highly specialized nature of this qualification, which may not be as critical in the operational framework of SACCOs compared to other roles that require practical and managerial skills.

#### **4.4.4 Participants' number of years worked in the SACCOs**

The study further intended to know the number of years the participants worked in the SACCOs. Table 4.3 shows the response of the number of years worked by the participants

**Table 4.4: Participants' number of years worked in the SACCOs**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5 years	28	20.0%
5- 10 Years	62	44.3%
11-15 Years	23	16.4%
16-20 years	16	11.4%
Over 20 years	11	7.9%

<b>Total</b>	<b>140</b>	<b>100</b>
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Source: (Researcher, 2024)

From the findings, most of the respondents 45.4% had worked in the SACCOs for 5-10 years while 21.1% had worked there for less than 5 years. 17.8 % of the respondents had worked for 11-15 years. Only 5.3% of the respondents had worked in SACCOs for more than 20 years.

#### 4.5 Descriptive Statistics

The characteristics of the responses that were received are presented in the following subsections under each variable

##### 4.5.1 Control environment

The study further established the extent to which control environment influences the financial performance of Saccos in Meru County. The table 4.5 below indicates the results as recorded.

**Key: (5) -Strongly Agree (4) – Agree (3) - Neutral (2) – Disagree (1)-Strongly disagree.**

**Table 4.5: Control environment**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Mean</b>	<b>S.D</b>
The Sacco observe privacy and integrity in records and data access	0%	2.7%	14.0%	36.3%	46.0%	2.84	1.453

The Sacco have spelt out internal control rules and regulations	4.3%	10.5%	20.0%	34.7%	30.5%	2.79	1.481
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The Sacco's policy establishes the internal control environment procedures and guidelines	7.0%	11.2%	20.8%	31.3%	29.7%	2.32	1.569
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The Saccos policies and procedures informs the Sacco's undertakings	3.4%	9.6%	19.1%	39.8%	28.0%	3.62	1.587
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Source: *Researcher (2024)*

The findings presented in Table 4.5 shed light on participants' perceptions regarding the operational practices of SACCOs, particularly in terms of privacy, integrity, internal controls, and adherence to policies. A notable 46.0% of respondents strongly agreed that SACCOs observe privacy and integrity in records and data access, reflecting a positive sentiment towards the organizations' commitment to safeguarding sensitive information. The standard deviation of 1.453 suggests a moderate level of consensus among respondents, while a mean score of 2.84 indicates that, overall, the participants perceive this aspect as important.

Moreover, 36.3% of participants agreed that SACCOs have clearly defined internal control rules and regulations, further underscoring the importance of structured governance in their operations. The mean score of 2.79, coupled with a standard deviation of 1.481, indicates a relatively consistent viewpoint among respondents regarding the existence of these controls.

The results also revealed that 31.3% of participants agreed that SACCOs' policies establish the internal control environment procedures and guidelines, which received a lower mean score of 2.32 and a standard deviation of 1.569. This suggests that there may be some uncertainty or room for improvement in how these procedures are communicated or implemented within the organizations.

The study sought to find how the control environment influences the financial performance of the SACCOs in Meru County, Kenya. The findings revealed a significant relationship between these two variables, highlighting the essential role of a strong control environment in enhancing financial outcomes. Participants noted that SACCOs prioritize privacy and integrity in their record-keeping practices, which is vital for maintaining trust among members and stakeholders. The study indicated that clear internal control rules and regulations are established within these organizations, serving as a foundation for sound governance and operational effectiveness. By adhering to these established protocols, SACCOs can mitigate risks associated with financial mismanagement, ultimately leading to improved performance.

Inferential statistics demonstrated a strong positive correlation between the control environment and the financial performance of SACCOs. The regression analysis revealed that for every unit increase in the control environment, there would be a corresponding increase of 0.381 in financial performance. This quantifiable relationship underscores the importance of prioritizing a robust control environment as a critical factor influencing financial health. Implementing effective internal controls and governance structures allows SACCOs to navigate the complexities of financial management more efficiently, enhancing their operational effectiveness and financial stability.

The implications of these findings are profound for the strategic direction of SACCOs in Meru County. Strengthening the control environment should be a primary focus for management, as it lays the groundwork for informed decision-making and effective risk mitigation. By investing in training programs for staff on internal controls and compliance, SACCOs can equip employees with the necessary knowledge and skills to uphold these standards. Enhancing policies and procedures that support a strong control culture will not only lead to improved financial performance but also promote long-term sustainability and growth for SACCOs in the region. Ultimately, the study underscores the integral role of a robust control environment in driving financial success for SACCOs in Meru County

#### 4.5.2 Internal control activities

The study established the extent in which internal control activities influences the financial performance of Saccos in Meru County. The table 4.6 below indicates the results as recorded.

**Key: (5) -Strongly Agree (4) – Agree (3) - Neutral (2) – Disagree (1)-Strongly disagree.**

**Table 4.6: Internal control activities**

Statements	1	2	3	4	5	Mean	S.D
The Sacco has clear protocol for approval of activities and payments	1.6%	24.7%	23.0%	24.0%	35.7%	2.81	1.222
The Sacco has well spelt out procedures for authorization of financial transactions	6.2%	11.2%	15.5%	17.6%	40.5%	2.84	1.292
The duties are segregated to promote accountability	5.8%	12.1%	13.0%	32.9%	36.2%	2.52	1.269

The Sacco trains its staff to enhance their skills and competences 8.4% 12.1% 15.4% 31.0% 33.1% 2.81 1.235

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Source: (Researcher, 2024)

The findings indicate a strong level of confidence among respondents regarding the operational protocols of SACCOs, particularly concerning approval processes and financial transactions. A significant 35.7% of respondents strongly agreed that SACCOs have a clear protocol for the approval of activities and payments, reflected by a mean score of 2.81 and a standard deviation of 1.222. This suggests a relatively consistent perception among participants regarding the clarity of these protocols, indicating that SACCOs prioritize structured decision-making processes in their operations. 24.0% of respondents also agreed with this statement, further supporting the notion that a majority recognizes the importance of having clear approval protocols.

In terms of financial transaction management, a larger majority, at 40.5%, strongly agreed that SACCOs have well-defined procedures for authorizing financial transactions, with a mean of 2.84 and a standard deviation of 1.292. This finding underscores the importance of established procedures in promoting transparency and accountability within financial operations, which is crucial for maintaining the trust of members and stakeholders.

36.2% of participants strongly agreed that duties are segregated to promote accountability, as indicated by a mean score of 2.52 and a standard deviation of 1.269. This segregation of duties is vital in reducing the risk of fraud and ensuring that responsibilities are clearly defined, thereby enhancing the overall governance framework of SACCOs.

The study established a positive correlation between internal control activities and the financial performance of SACCOs in Meru County, Kenya. A significant majority of respondents acknowledged that internal control activities play a crucial role in influencing the financial outcomes of these organizations. The regression analysis revealed that a unit improvement in internal control activities would lead to a 0.193 increase in financial performance. This quantitative insight emphasizes the importance of robust internal control mechanisms in enhancing SACCOs' financial health.

The findings highlighted that SACCOs in the region have established clear protocols for the approval of activities and payments. These well-defined procedures for authorizing financial transactions are critical for maintaining operational integrity and ensuring that all financial dealings are transparent and accountable. The study further pointed out that the segregation of duties within SACCOs promotes accountability, reducing the risk of errors or fraud. By ensuring that different individuals are responsible for various financial processes, SACCOs can mitigate risks and enhance their overall governance structure.

The emphasis on training staff to enhance their skills and competencies further underscores the commitment of SACCOs to effective internal control activities. Regular training ensures that employees are well-equipped to adhere to established protocols and understand their roles in maintaining financial integrity. This proactive approach not only improves operational efficiency but also fosters a culture of accountability and transparency within the organization. As a result, SACCOs that prioritize internal control activities are likely to experience improved financial performance and greater sustainability in the competitive financial landscape of Meru County.

### 4.5.3 Risk assessments

The study established the extent in which risk assessments influences the financial performance of Saccos in Meru County. The table 4.7 below indicates the results as recorded.

**Key: (5) -Strongly Agree (4) – Agree (3) - Neutral (2) – Disagree (1)-Strongly disagree.**

**Table 4.7: Risk assessments**

Statements	1	2	3	4	5	Mean	S.D
The Sacco has competent employees for risk assessment	2.6%	14.7%	25.0%	25.9%	31.8%	1.71	1.126
The Sacco conducts regular training and workshop to train their employees	4.3%	11.2%	22.4%	27.6%	34.5%	2.41	1.170
The Sacco utilizes compliance officers in the identification of risks	3.4%	7.8%	19.0%	27.6%	42.2%	2.83	1.305
The risk evaluation and response is conducted in line with the set timelines.	6.0%	12.9%	22.4%	27.7%	31.0%	2.37	1.332

Source: *Researcher (2024)*

The findings from Table 4.7 provide insights into the perceptions of respondents regarding the competencies and practices of SACCOs related to risk assessment and management. A significant portion, 31.8% of respondents, strongly agreed that SACCOs employ competent individuals for risk assessment, which is indicated by a mean of 1.71 and a standard deviation

of 1.126. This suggests that there is a generally positive sentiment towards the skill level of employees involved in assessing risks, which is critical for the effective management of potential threats to the organization's operations.

In terms of training, 34.5% of respondents affirmed that SACCOs conduct regular training and workshops for their employees, reflected by a mean score of 2.41 and a standard deviation of 1.170. This finding highlights the importance placed on ongoing professional development, which not only enhances employees' competencies but also ensures they remain updated on best practices and evolving risks in the financial landscape. Regular training is vital for equipping staff with the necessary skills to identify and mitigate risks effectively.

A notable 42.2% of respondents strongly agreed that SACCOs utilize compliance officers in the identification of risks, as shown by a mean of 2.37 and a standard deviation of 1.332. This indicates a proactive approach to risk management, with compliance officers playing a critical role in ensuring that risks are identified in a timely manner and that appropriate measures are taken to address them.

The study aimed to investigate how risk assessments influence the performance of SACCOs in Meru County, revealing a close relationship between effective risk management practices and financial performance. The findings indicated that SACCOs employed competent staff dedicated to conducting risk assessments, which is essential for identifying potential threats and vulnerabilities. Regular training and workshops were found to be instrumental in enhancing employees' skills, ensuring that they remain proficient in their roles. This emphasis on continuous professional development underscores the importance of being prepared to manage risks effectively in a dynamic financial environment.

Furthermore, the study highlighted that SACCOs actively utilize compliance officers to identify and evaluate risks systematically. This strategic approach ensures that risk assessments are conducted in alignment with established timelines, promoting a disciplined and proactive stance towards risk management. The presence of compliance officers serves to strengthen the organization's capacity to navigate potential challenges while adhering to regulatory standards. The strong positive correlation found between risk assessments and financial performance emphasizes the critical role that effective risk management plays in ensuring the sustainability and profitability of SACCOs in Meru County.

The regression analysis further revealed that an increase in risk assessment activities correlates with a substantial increase of 0.472 in the financial performance of SACCOs. This finding reinforces the idea that investing in robust risk assessment processes directly contributes to better financial outcomes. As SACCOs continue to face various operational risks, including market fluctuations and regulatory changes, prioritizing risk assessments can lead to more informed decision-making and enhanced financial stability. Therefore, SACCOs that effectively implement risk management strategies are likely to experience improved performance and a competitive edge in the financial services sector within Meru County.

#### **4.5.4 Auditing**

The study established the extent in which auditing affects the financial performance of Saccos in Meru County. The table 4.8 below indicates the results as recorded.

**Key: (5) -Strongly Agree (4) – Agree (3) - Neutral (2) – Disagree (1)-Strongly disagree.**

**Table 4.8: Auditing**

<b>Auditing</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Mean</b>	<b>S.D</b>
The Sacco has internal audit department	0%	2.7%	14.0%	36.3%	46.0%	2.84	1.453
The Sacco conducts regular and timely audit on its financial records	4.3%	10.5%	20.0%	34.7%	30.5%	2.79	1.481
The Sacco has reliable, competent and experienced internal audit staff	7.0%	11.2%	20.8%	31.3%	29.7%	2.32	1.569
The Sacco relies on audited financial statements in decision making	3.4%	9.6%	19.1%	39.8%	28.0%	3.62	1.587

Source: *Researcher (2024)*

Table 4.8 shows that most of the participants (46.0%) strongly agreed with the proposition that their Sacco has internal audit department. This was as elaborated by a standard deviation of 1.453 and a mean of 2.84. Sacco conducts regular and timely audit on its financial records as considered by majority of the respondents (65.2%) with a standard deviation of 1.481 and a mean of 2.79. Saccos have reliable, competent and experienced internal audit staff was considered by 61.0% of the respondents as they agreed and strongly agreed on the same with a standard deviation of 1.569 and a mean of 2.32. (67.8%) of the participants in the study

agreed and strongly agreed that Saccos rely on audited financial statements in decision with a standard deviation of 1.587 and a mean of 3.62.

The study further sought to explore the impact of auditing on the performance of SACCOs in Meru County, revealing a significant association between effective auditing practices and financial performance. The findings indicated that SACCOs maintained internal audit departments dedicated to conducting regular and timely audits of financial records. This proactive approach to auditing ensures that financial activities are closely monitored, enhancing transparency and accountability within the organizations.

The presence of a well-established internal audit function serves as a safeguard against financial mismanagement, ultimately contributing to the overall stability and integrity of the SACCOs. The study highlighted the competence and experience of internal audit staff within the SACCOs. This expertise is crucial for conducting thorough audits and providing valuable insights into financial operations. The study revealed that SACCOs heavily relied on audited financial statements to inform their policy decisions, indicating a strong link between audit outcomes and strategic planning.

The regression analysis further demonstrated that improvements in auditing correlate with an increase of 0.355 in the financial performance of SACCOs in Meru County. This finding underscores the importance of robust auditing practices in enhancing the financial health of SACCOs. As SACCOs navigate a competitive financial landscape, prioritizing auditing can lead to better financial outcomes and greater organizational resilience. By ensuring the integrity of financial records through regular audits, SACCOs can foster stakeholder confidence and support sustainable growth, ultimately benefiting their members and the broader community.

The findings of this study align with previous research that has emphasized the critical role of auditing in enhancing the financial performance of cooperatives and financial institutions. Similar studies, such as those conducted by Arora (2014) and Mwangi et al. (2016), have illustrated how effective internal auditing practices contribute to improved financial accountability and transparency, leading to better financial outcomes. These studies highlight that organizations with robust internal audit functions are better equipped to identify and mitigate financial risks, thereby enhancing their operational efficiency. A research by Osei et al. (2020) found a strong correlation between the quality of internal audits and the financial performance of SACCOs in Ghana, reinforcing the notion that systematic auditing practices are essential for sustaining financial health in cooperative societies. Collectively, these studies underscore the importance of prioritizing auditing as a strategic tool for enhancing financial performance and ensuring long-term viability in the cooperative sector.

#### **4.5.5 Financial performance of Saccos**

The study established the extent to which credit management practices have enhanced the financial performance of SACCOs in Meru County. The results were recorded in table 4.9 below.

**Key: 1 = Not At All, 2 = Low Extent, 3 = Moderate Extent, 4 = High Extent, and 5 = Very High Extent**

**Table 4.9: Financial performance**

Statements	1	2	3	4	5	Mean	S.D
The internal control systems have increased the Sacco's profit	2.6%	14.7%	13.0%	31.0%	38.7%	2.93	1.233
The internal control systems have resulted in timely reporting	5.2%	11.2%	15.5%	27.6%	40.5%	2.73	1.281
The internal control systems have resulted in reliable accounting data	6.8%	12.1%	13.0%	31.9%	36.2%	2.42	1.256
The internal control systems have enhanced compliance with rules and regulation	7.4%	12.1%	16.4%	31.0%	33.1%	2.70	1.224

Source: *Researcher (2024)*

The study above shows that 38.7% indicated that internal control systems have increased the Sacco's profits to very high extent with a standard deviation of 1.233 and a mean of 2.93. Also the highest percentage of the participants (40.5%) noted that the internal control systems have resulted in timely reporting to a very high extent with a standard deviation of 1.281 and a mean of 2.73. A considerable proportion of the respondents (36.2%) indicated that the internal control systems have resulted in reliable accounting data to very high extent with a

standard deviation of 1.256 and a mean of 2.42. Finally the research established that internal control systems have enhanced compliance with rules and regulation to very high extent as 64.1% of the respondents supported it with a standard deviation of 1.224 and a mean of 2.70.

#### 4.6 Inferential Statistics

The researcher further utilized multiple linear Regression model and correlation analysis in order to determine the strength of prediction and correlation of the independent variables in the financial performance of Saccos in Meru County. Both regression and correlation analysis was applied to all the study variables.

##### 4.6.1 Correlations Analysis

The relationship between the dependent and independent variables was obtained in the study using correlation analysis. Correlation analysis is done purposely in order to obtain the nature of relationship between the predictor and the explanatory variable and make a valid conclusion and recommendation. Correlation coefficient is always between +1 and -1 positive correlation implies that an increase in the independent variable results to an increase in the dependent variable while negative correlation means that an increase in the independent variable results to a decrease in the dependent variable. Statistically, the significance of the relationship between the variable tested is done at 5% or 1%. Table 4.10 presents the findings of this study.

**Table 4.10: Pearson’s Correlations**

		Financial performance	Control environment	Internal control activities	Risk assessments	Auditing
Financial Performance	Pearson Correlation	1				

	Sig. (2-tailed)					
Control Environment	Pearson Correlation	.847**	1			
	Sig. (2-tailed)	0.000				
Internal control activities	Pearson Correlation	.539**	.324**	1		
	Sig. (2-tailed)	0.000	.000			
Risk Assessments	Pearson Correlation	.582**	.188**	.388**	1	
	Sig. (2-tailed)	0.000	.000	.000		
Auditing	Pearson Correlation	.325	.258**	.410	.982**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

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

Source: (collected data), 2024

From table 4.10, it can be seen that a very significant a value of 0.00 between financial performance and control environment, which is indicated by existence of a strong positive correlation of 0.847. This indicates that enhancing control environment brings about an increase in financial performance of Saccos. This research has established that internal control activities and financial performance of Saccos are positively correlated with a strong value of 0.539. The study has also established a strong positive correlation of 0.582 that was very significant (0.000) at 5% level of significance, for the relationship between the influence of risk assessment and the financial performance of SACCOS in Meru County. The study also indicates that there exists a very significant value of 0.00 and a positive correlation of 0.325, between auditing and the financial performance of Saccos in Meru County, Kenya. From the study it's evident that all factors under study had a positive correlation with the financial performance of Saccos

## **4.6.2 Multiple Regression Analysis**

The study also sought to analyze the financial routine of SACCOS in the selected areas of study of the larger Meru County. The factors investigated were: control environment, internal control activities, risk assessment and auditing.

## **4.6.3 Assumptions of Multiple regression analysis**

### **4.6.3.1 Multicollinearity Test**

Multicollinearity test in this study was carried out through the computation of Variance Inflation factor (VIF). According to Gujarat and Porter (2009), multiple regression analysis in this test, correlate highly within themselves and this makes for the correlation of those variables that are both dependent and independent. The degree to which regressor's are related to others is measured using collinearity diagnostics. The existence of multicollinearity is a vital problem in applying multiple time series regression model (Gujarat & Porter, 2009). To detect for multicollinearity, as shown in table 4.10, the study examined the correlation matrix or by using Variance Inflation Factor (VIF). In an ordinary least- squares regression analysis, the severity of multicollinearity is quantified by the Variance Inflation Factor (VIF). O'Brien (2007) suggested that a more severe problem would be indicated by a higher value of VIFs, which implies that a sign of multicollinearity is represented by a Variance Inflation Factor (VIF) greater than 10. The outcomes in table 4.11 show that all the variables had a variance inflation factors (VIF) of less than 10 that is, control environment (-), internal control activities (1.155), risk assessment (-) and auditing (1.155); this implies that there was no collinearity with the variables thus all the variables were maintained in the regression model.

**Table 4.11 Collinearity Statistics**

<b>Variables</b>	<b>Tolerance</b>	<b>VIF</b>
Control environment	0.000	-
Internal control activities	0.866	1.155
Risk assessment	0.000	-
Auditing	0.866	1.155

*Source: (Researcher, 2024)*

#### **4.6.3.2 Test of normality**

Shapiro-Wilk test was used to test the normality in this study. This study has the ability of detecting the level of normality and this is reflected using skewness and kurtosis. 0-1 forms the range upon which the statistic is determined. According to Razali and Wah (2011), 0.05 is the figure that shows normality. This test is key in the assessment whether there is normality of data in regard to hypothesis as indicated:

H<sub>0</sub>: The Sample is normally distributed.

H<sub>a</sub>: The Sample is not normally distributed.

The tests reject the hypothesis of normality when the p-value is greater than or equal to 0.05 (Sekaran & Bougie, 2010). Table 4.12 shows Shapiro-Wilk statistics, where control environment had a p = .011, internal control activities p = .019, risk assessment p = .031 and auditing p = .043. Since the p-values were greater than the significance level (0.05) (not significant if p<.05), this implies that the variables were normally distributed.

**Table 4.12 Shapiro-Wilko**

	<b>Statistic</b>	<b>Df</b>	<b>p-value</b>
Control environment	.943	139	.011
Internal control activities	.852	139	.019
Risk assessments	.864	139	.031
Auditing	.731	139	.043

*Source: (Researcher, 2024)*

The regression model was:

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

This whereby Y represent the financial performance of Saccos in Meru County,  $X_1$  control environment,  $X_2$  is internal control activities,  $X_3$  is risk assessments and  $X_4$  is auditing. While  $\varepsilon$  is the significance for the model from f-significance results obtained from the ANOVA test (analysis of variance),  $\beta_1 - \beta_4$  are the regression coefficients and  $B_0$  is the model's constant.

**Table 4.13: Model's Goodness of Fit Statistics**

<b>R</b>	<b>R Square</b>	<b>Adjusted Square</b>	<b>R Std. Error of the Estimate</b>	<b>Durbin-Watson</b>
.943 <sup>a</sup>	.959	.947	.16565	0.785

a. Predictors: (Constant), control environment, internal control activities, risks assessments and auditing

*Source: (Researcher, 2024)*

As indicated in table 4.13, independent and dependent variables give a good linear association between the dependent and independent variables used in the study. This is shown by a correlation (R) coefficient of 0.943. The determination coefficient as measured by the adjusted R-square presents a strong relationship between dependent and independent

variables given a value of .959. This depicts that the model accounts for 95.9% of the total observations while 4.1% remains unexplained by the regression model.

#### 4.7 Analysis of Variance

Table 4.14 indicates the analysis of variance results

**Table 4.14: Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.213	4	7.053	98.6434	.000 <sup>b</sup>
	Residual	9.653	135	.0715		
	Total	37.866	139			

a. Predictors: (Constant), control environment, internal control activities, risks assessments and auditing

b. Dependent Variable: Financial performance of Saccos *Source: (Researcher, 2024)*

In table 4.14, the ANOVA outcomes are presented and this shows how significant the regression model was. P=0.000 was established and since the p-value was less than 0.05, the model was considered significant for the study.

**Table 4.15: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.604	.214		7.133	.000
Control environment	.381	.073	.224	5.453	.000
Internal control activities	.193	.123	.114	1.665	.024
Risk assessments	.472	.079	.386	6.025	.000
Auditing	.355	.065	.364	6.364	.000

a. Dependent Variable: Financial performance of Saccos

Source: (Author), 2024

The following regression result was obtained:

$$Y = 1.604 + 0.381X_1 + 0.193X_2 + 0.472X_3 + 0.355X_4$$

When other factors such as the control environment, the internal control activities, the risks assessments and audit activities are at zero, the financial performance of SACCOS were presented at 1.604. As such, a unit increase in control environment would lead to 0.381

improvements in financial performance of Saccos, when all other factors are held constant. On the other hand, a unit improvement in internal control activities would lead to 0.193 improvements in Saccos' financial performance, holding other factors constant. Table 4.15 also shows that a 0.472 improvement in Saccos' financial performance would be caused by a unit improvement in risk assessments, holding other factors constant. Further, the findings indicate that a unit improvement in auditing activities would lead to 0.355 improvements in financial performance of SACCOs when all the other factors are held constant.

All the variables under study had a p-value of  $< 0.05$ . this implies that they were all significant and with a positive contribution to the financial performance of SACCOs in Meru County. The regression results provide a comprehensive understanding of how various factors influence the financial performance of SACCOs in Meru County. One significant inference is the strong positive relationship between risk assessments and financial performance, indicated by the highest coefficient of 0.472. This suggests that SACCOs that implement thorough risk assessment processes are likely to experience substantial improvements in their financial outcomes. By identifying potential risks and mitigating them proactively, these organizations can enhance their operational efficiency and safeguard their resources. This finding emphasizes the need for SACCOs to prioritize risk management as a strategic focus area, ensuring they have the necessary frameworks and practices in place to evaluate and respond to financial uncertainties effectively.

The significance of the control environment, internal control activities, and auditing practices is highlighted by their positive contributions to financial performance. The coefficients of 0.381, 0.193, and 0.355, respectively, suggest that these factors collectively create a robust governance structure that fosters accountability and transparency. A strong control

environment provides the foundation for effective internal controls and auditing, which are essential for maintaining the integrity of financial reporting. SACCOs should invest in training and resources to strengthen these areas, as doing so not only enhances their financial performance but also builds trust among stakeholders.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Overview**

This chapter presents all the relevant discussion on the findings of the study based on the all the objectives of the research and collected and analysed data in the previous chapter. It also presents the summary of the study findings as presented and discussed in the previous chapter. This section also gives a the conclusions to the study with proposed recommendations based on the findings of the research objectives.

#### **5.2 Summary of Findings**

##### **5.2.1 Influence of Control Environment on SACCOs' Financial Performance**

The study revealed a significant relationship between the control environment and SACCOs' financial performance in Meru County. A strong control environment, with clear internal control rules, enhances operational effectiveness and financial outcomes. Regression analysis showed that improving the control environment by one unit resulted in a 0.381

increase in financial performance. Strengthening control systems and investing in staff training were emphasized as key strategies for improving SACCOs' financial stability.

### **5.2.2 Impact of Internal Control Activities on Performance**

A positive correlation was found between internal control activities and financial performance. Clear protocols for approving transactions, segregation of duties, and staff training were identified as vital for improving SACCOs' financial health. Regression analysis revealed that a unit improvement in internal control activities led to a 0.193 increase in financial performance. SACCOs with strong internal controls are better positioned for operational efficiency and financial sustainability.

### **5.2.3 Role of Risk Assessments in SACCOs' Performance**

Effective risk assessments were shown to significantly influence SACCOs' financial performance. The study highlighted the importance of competent staff and compliance officers in identifying and managing risks. Regression analysis indicated that increased risk assessment activities correlated with a 0.472 rise in financial performance. This underscores the importance of robust risk management in achieving better financial outcomes and sustainability.

### **5.2.4 Impact of Auditing on SACCOs' Financial Performance**

The study found a strong link between effective auditing practices and SACCOs' financial performance. Regular internal audits, conducted by experienced audit staff, enhanced transparency and accountability. Regression analysis showed that improvements in auditing correlated with a 0.355 increase in financial performance. These findings align with previous studies, emphasizing the importance of auditing in improving financial stability, risk mitigation, and overall governance within SACCOs.

### **5.3 Conclusions**

The study findings clearly demonstrate that internal control systems are considered very crucial in the success of financial institutions. This could be the explanation of why some financial institutions struggle to meet their financial obligations or total failure of the institution altogether. The study noted that SACCOs that had implemented strong and effective internal control systems subsequently had enhanced fiscal health as evident by their high financial performance when compared to the other SACCOs that had weak internal control systems. Based on the findings, risks assessment and control environment had positive and significant effects on the financial performance of Saccos in Meru County. It is against this background that the study concluded that there exists a significant relationship between internal control systems, which constitutes the risk assessment and control environment and the financial performance of SACCOs in Meru County.

### **5.4 Recommendations**

#### **a) Strengthening the Control Environment and Its Impact on Financial Performance**

Based on the findings that demonstrated a strong positive correlation (0.381) between the control environment and financial performance, the study recommends that SACCOs in Meru County establish and strengthen their control environment. This can be achieved by ensuring clear policies and procedures are in place that promote privacy and integrity in record-keeping and data access. The positive regression result underscores the importance of a robust control environment, which was shown to directly improve SACCOs' financial outcomes. By prioritizing these elements, SACCOs will be better equipped to mitigate risks and enhance financial stability.

### **b) Enhancing Internal Control Activities to Improve Performance**

The study found that internal control activities had a positive impact on SACCOs' financial performance, with a regression result of 0.193 indicating that improvements in internal controls led to increased financial performance. In light of this, the study recommends that SACCOs enhance their internal control activities by implementing clear protocols for approving activities and payments. Furthermore, ensuring the segregation of duties will help promote accountability and reduce financial mismanagement. Regular training for staff involved in internal controls is essential to boost their skills and competencies, thus fostering a culture of accountability and transparency.

### **c) Prioritizing Risk Assessments for Improved Performance**

The findings from the regression analysis revealed a significant positive correlation (0.472) between risk assessment activities and financial performance. This highlights the crucial role that effective risk management plays in the financial success of SACCOs. Based on this, the study recommends that SACCOs prioritize regular risk assessments by employing competent staff and utilizing compliance officers to effectively identify and evaluate risks. Ongoing training and workshops will further enhance employees' abilities to manage evolving risks, ensuring that risk assessments remain timely and effective in adapting to changing risk landscapes. The strong correlation between risk assessments and financial performance emphasizes the importance of this activity in improving SACCOs' overall stability and profitability.

#### **d) Strengthening Auditing Practices to Enhance Financial Performance**

The study found a positive correlation (0.355) between auditing practices and financial performance, indicating that effective auditing has a significant impact on the financial health of SACCOs. In light of this, it is recommended that SACCOs maintain a strong internal audit function, ensuring that audits are conducted regularly and on time. The retention of experienced and competent audit staff is crucial for this process, as their expertise ensures that audits are thorough and valuable. Additionally, SACCOs should make use of audited financial statements to guide their policy decisions, as the findings indicate that strong auditing practices directly correlate with improved financial outcomes. By prioritizing auditing, SACCOs can enhance transparency, accountability, and governance, ultimately leading to better financial performance.

#### **5.5 Suggestions for further study**

Given that the current study focused on Saccos in Meru County, further study can be done to find the influence of the internal control systems on financial performance of all the Saccos Kenya. This will help to evaluate the overall effects and allow for generalization on the effects of internal control systems on the financial performance of Saccos.

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**APPENDICES**

**APPENDIX I: INFORMED CONSENT**

**Dear participant,**

My name is Kajuki Josphine Mukami, and I am a Mount Kenya University Master of Business Administration in Finance student. As part of the course necessities, I am now undertaking a study on "**Assessment of the Contribution of Internal Control Systems on Financial Performance of Saccos in Meru County**". Therefore, it is a great honor to have your Sacco sampled for the study and you have been selected as a participant. You are graciously invited to complete the following questionnaire to the best of your ability. Please do not sign your name on the questionnaire. Utmost confidentiality to all data provided will be strictly observed for this research.

Before I involve you in this study, I kindly request you to Sign the Declaration below.

Have read the purpose and hereby agree/disagree to participate in this study. **Respondent**

Sign .....

Date.....

**Principal investigator**

**Josphine Mukami**

Sign .....  .....

Mobile number 0714160342

**Ethics review committee office**

The chairman

Mount Kenya University Ethics Review Committee

P. O.BOX 342-01000

**THIKA**

**APPENDIX II: QUESTIONNAIRE**

Kindly, take a few moments to fill out our questionnaire. Your replies will assist us in addressing concerns about internal control mechanisms and how they affect the financial performance of SACCOs in Meru County. Your responses will be kept confidential.

**Section A**

1. Gender of respondent

- i. Female [ ]
- ii. Male [ ]

2. Age of the respondent: (in years) iii. Less than 30 [ ]

- iv. 31-40 [ ]
- v. 41-50 [ ]
- vi. above 50 years [ ]

3. Respondent's role in your Sacco:

Specify.....

4. Highest Education Level

- i. Diploma [ ]
- ii. Degree [ ]
- iii. Post Graduate Diploma [ ]
- iv. Masters [ ]
- v. PhD [ ]

5. Years working in the Sacco

- i. < a) Less than 5 years [ ]
- ii. (b) 5- 10 years [ ]
- iii. (c) 11-15 years [ ]
- iv. (d) 16-20 years [ ]

v. (e) Over 20 years [ ]

**Section B: Control environment**

Rate the following statements based on the scale provided below

Scale ranges from 1 to 5, where the lowest, 1 = strongly disagree; while the highest, 5 = strongly agree

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The Sacco observe privacy and integrity in records and data access					
The Sacco have spelt out internal control rules and regulations					
The Sacco's policy establishes the internal control environment procedures and guidelines					
The Saccos policies and procedures informs the Sacco's undertakings					

Kindly, explain how control environment has improved the financial performance of your Sacco.....

.....

.....

.....

**Section C: Internal control activities**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The Sacco has clear protocol for approval of activities and payments					
The Sacco has well spelt out procedures for authorization of financial transactions					

The duties are segregated to promote accountability					
The Sacco trains its staff to enhance their skills and competences					

Kindly, explain how internal control activities have improved the financial performance of your organization

.....

.....

.....

.....

**Section D: Risk assessments**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The Sacco's employees are competent for risk assessment					
The Sacco conducts regular training and workshop to train their employees					
The Sacco utilizes compliance officers in the identification of risks					
The risk evaluation and response is conducted in line with the set timelines.					

Explain how risk assessment has improved the financial performance of your organization

.....

.....

.....

.....

**Section E: Auditing**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree

There exists a Sacco department for internal audit					
The Sacco conducts regular and timely audit on its financial records					
The Sacco has reliable, competent and experienced internal audit staff					
The Sacco relies on audited financial statements in decision making					

Kindly, explain how auditing has improved the financial performance of your Sacco

.....

.....

.....

.....

**Section E: Financial performance of Saccos**

To what extent has internal control systems enhanced financial performance of the Saccos with regards to the following indicators Use the Likert scale where the lowest, 1 = Not At All, 2 = and highest, 5 = Very High Extent.

<b>Statement</b>	<b>Not at all</b>	<b>Low extent</b>	<b>Moderate</b>	<b>High extent</b>	<b>Very strong extent</b>
The internal control systems have increased the Sacco's profit					
The internal control systems have resulted in timely reporting					
The internal control systems have resulted reliable accounting data					

The internal control systems have enhanced compliance with rules and regulation					
---	--	--	--	--	--

**Thank you for participating**



# IV: SIMILARITY INDEX REPORT



**Josephine Mukami**

## ASSESSMENT OF THE CONTRIBUTION OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF SAVI...

ProjectA

MBA

Mount Kenya University

### Document Details

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### III: ETHICAL REVIEW COMMISSION



REF: MKU/ISERC/4165

Date: 10 August 2024

TO: KAJUKI JOSHPHINE MUKAMI

REG: MBA/2021/73190

Dear Sir/Madam,

**RE: ASSESSMENT OF THE CONTRIBUTION OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE ORGANIZATIONS IN MERU COUNTY, KENYA**

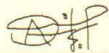
This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2993**. The approval period is **10/08/2024 - 09/08/2025**.

This approval is subject to compliance with the following requirements;

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,



**Dr. Alfred Owino, PhD**  
Chairman, Mount Kenya University ISERC



**APPENDIX**

**IV: INTRODUCTORY LETTER**





## DIRECTORATE OF GRADUATE STUDIES

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MBA/2021/73190

14<sup>th</sup> August, 2024

*National Commission for Science Technology & Innovation (NACOSTI)  
Off Waiyaki Way, Upper Kabete,  
P.O Box 30623- 00100  
NAIROBI, KENYA*

Dear Sir/Madam,


**RE: KAJUKI JOSAPHINE MUKAMI - REGISTRATION NO. MBA/2021/73190**

The purpose of this letter is to introduce the above named student who is pursuing Master of Business Administration in the department of Accounting and Finance in the school of Business and Economics.

The title of the research is "Assessment of the Contribution of internal Control Systems on Financial Performance of Savings and Credit Co-operative Organizations in Meru County, Kenya." It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between August, 2024 and October, 2024.

Any assistance accorded to the student will be highly appreciated

I thank you.

  
Dr. Samuel M. Karanga, PhD  
Director, Graduate Studies

Mount Kenya University  
P.O. Box 342 - 01000, THIKA  
Office of the Director  
Director, Graduate Studies

Encl.

---

Main Campus, General Kago Road, P.O. Box 342-01000 Thika.  
Tel: 020-2878 000, Cell: +254 709 153 000  
Email: info@mku.ac.ke, Web: www.mku.ac.ke  
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**APPENDIX**

**V: NATIONAL COMMISSION FOR SCIENCE & INNOVATION**





Ref No: 230703

RESEARCH LICENSE



This is to Certify that Ms.. KAJUKI JOSAPHINE MUKAMI of Mount Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Meru on the topic: ASSESSMENT OF THE CONTRIBUTION OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE ORGANIZATIONS IN MERU COUNTY, KENYA for the period ending : 30/August/2025.

License No: NACOSTI/P/24/39556

230703

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NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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See overleaf for conditions

# APPENDIX

**THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)**  
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

**The National Commission for Science, Technology and Innovation**, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

## CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
  - i. Endanger national security
  - ii. Adversely affect the lives of Kenyans
  - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
  - iv. Result in exploitation of intellectual property rights of communities in Kenya
  - v. Adversely affect the environment
  - vi. Adversely affect the rights of communities
  - vii. Endanger public safety and national cohesion
  - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
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9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and  
Innovation(NACOSTI),  
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