



Effect of internal controls on the financial performance of deposit taking SACCOs in Kenya.

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ABSTRACT

The study sought to establish the effect of internal controls on the financial performance of SACCOs in western Kenya. The study was anchored on Economic Value Added and Agency theories. Primary and secondary data was collected and analyzed using correlational research design. Purposive sampling was used to select 120 respondents from a target population of 40 Deposit Taking SACCO's top management registered by SASRA. The study employed a Census survey technique with a response rate at 93%. Pre-validated questionnaires had a reliability alpha $\alpha = 0.903$ internal controls and $\alpha = 0.873$ financial performance internal consistency. Results revealed $R^2 = .603$, $p = .000$ indicating that internal controls accounted for 60.3% change in financial performance and has a strong significant contribution to financial performance. The study recommends that SACCOs should prioritize the implementation of internal control systems and improve the audit committees with focus on independence and expertise.

INTRODUCTION

Internal control is a system established by the management to safeguard the assets of the company and ensure reliable financial reporting. It encompasses the policies, processes and other aspects of the organization adopted by the management to ensure efficient conduct of its business and to provide reliable financial information. Kenneman (2004) considers

internal controls as systems and processes established by the management to prevent and detect errors and frauds within the organization with an aim of safeguarding the assets of the firm. Njeri (2014) acknowledges that an effective internal control plays a fundamental role of helping an organization to prevent fraud, errors and minimize wastage. The effectiveness of internal controls can be guaranteed when controls are built into the organization's infrastructure hence

becoming part of the very essence of the organization. The management therefore needs to put in place specific procedures such as segregation of duties, accounting controls and competent staff in order to help in achieving the shareholders' wealth maximization goals. Jansen (2005) argues that reliance on the financial reporting can be enhanced by establishing both internal and external control systems within the organization.

Internal control environment determines the tone of the organization as set by the board of directors and management through policies, behavior and effective governance (Rotenberg et al., 2005). Weak control environment will lead to lax controls hence fraudulent financial reporting. There is therefore a need to put in place and effective control activities to prevent and detect errors and frauds. The management must ensure effective control activities which includes authorization, performance review, physical controls and segregation of duties. Control activities can be either preventive or detective and encompasses such activities as authorization and approvals, verifications and business performance review (COSO, 2011). Internal controls can either be preventive or detective controls. Preventive controls attempt to prevent errors and frauds from entering the system and include segregation of duties, proper authorization and physical controls. Detective controls deter errors and frauds that have not been prevented. They include reviews, analyses, reconciliation, physical inventories and audits (Lawrence, 2000). Both types of controls are essential for effective internal controls. While preventive controls prevent the error from entering the system, detective controls provide an evidence that detective controls are effective and preventing the losses (Chen, 2004). Sound internal controls therefore help an organization to prevent errors and frauds and ensure quality of financial reporting.

Several SACCOs in Kenya have witnessed loss of huge investments through fraud and misappropriation of assets and this has been attributed to ineffective internal controls. The inadequate internal controls have also promoted incidences such as corruption and collusion of management and external auditors (SASRA, 2012) and this has hindered most SACCOs from achieving their goals. Against this background, this study sought to answer the question: what is the effect of internal control on financial performance of SACCOs.

Theory guiding the Study

Anchored on Economic value added (EVA), a metric for financial performance of the firm as a measure of evaluating the performance of a firm is concerned with the residual wealth which is calculated by deducting the cost of capital from the operating profit, adjusted for taxes on a cash basis (Stewart, 1991). The adoption of EVA within SACCOs ensures that the management aims

at maximizing returns on members' deposits while mitigating any associated risk of loss. Therefore the use of EVA in the context of SACCOs will promote transparency and accountability in operation and ensure the achievement of SACCO wealth maximization goals. EVA being an integrated financial system is not only useful in decision making but is key in corporate applications such as performance measurement, determination of shareholder value, valuation of equity (Hatfield, 2002).

Empirical Literature

Mwakimasinde (2014) examined the effect of internal control systems on the performance of sugar out growers' companies in Kenya. The study findings showed that there is a positive and significant effect of internal control systems on financial performance. This was in line with the findings of Kinyua et al. (2015) who sought to establish the effect of internal control (control environment) on the financial performance of companies quoted in the Nairobi Securities Exchange. Study by Muraleetheran (2011) on the internal control and its impact of financial performance of the organization in Jaffna District in India found that internal controls have an impact on financial performance.

Ejoh and Ejom (2014) conducted a study on the impact of internal control (control activities) on financial performance of tertiary institutions in Nigeria. The study found that there is no significant relationship between internal control activities and financial performance. Kakucha (2009) carried out a study to evaluate the level of effectiveness of internal controls operating in Nairobi. The study adopted quantitative approach and used a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. The study established that there is a negative correlation between the resources held by an enterprise and its internal control weaknesses. The study also established a weak negative relationship between the internal control weaknesses and financial performance.

A study by Lerno (2016) sought to establish the impact of internal control practices on performance in County governments in Kenya. The study targeted the county administrators in the forty-seven (47) counties in Kenya. Questionnaires was used to obtain Primary data and the findings showed that the respondents were not sure whether the adoption of internal control practices has led to the increase of County's asset base overtime. The respondents were neither sure if adoption of internal control practices has led to the adequacy of the levies collected by county to cover the cost of running the courses. The study therefore concluded that the County Governments in Kenya have adopted internal control practices but the adoption of such practices has not fully led to improvement of performance in county government

Duh, Chen, Lin, & Kuo (2014) carried out a study to investigate the relationship between internal control implementation and operating efficiency of universities. Using data from questionnaire survey and from the field, the study measured internal control implementation and applied data envelopment analysis to estimate operating efficiency of 99 universities in Taiwan. The results indicated that internal control implementation has a positive but insignificant association with overall efficiency as well as teaching-related efficiency. However, it has a negative and significant association with research-related efficiency.

Muraleetheran (2011) conducted a research on the internal control and its impact of financial performance of the organization in Jaffna District, India. In this study, internal control was measured in terms of control environment, risk assessment and control activities while financial performance was measured by profitability, efficiency and liquidity. Data was collected using a questionnaire, observation and personal interviews. Data was collected from 181 respondents. The variables of the study were measured by chi – square and regression analysis. A chi – square test was used and value of 161.1 ($p = 0$) at 0.05 significant level indicates that there is a relationship between internal control and financial performance. Multiple regression analysis was carried out to establish the impact of the independent variable on dependent variable. The R^2 value of 0.818 revealed that internal control has an impact on financial performance.

Al-Thuneibat et al., (2015) conducted a research on the impact of internal control requirements on profitability of Saudi shareholding companies. Questionnaires were used to collect primary data to test the companies' compliance with internal control requirements and to measure profitability of the companies. Secondary data was collected from financial statements. Multiple regressions and t-test were used to analyze data and test the hypotheses. The study revealed that the degree of compliance with all components of internal control was very high. The alpha coefficient for the items measuring control environment, risk assessment, control procedures, control activities and monitoring were all close to 0.85. This signifies a strong internal consistency and reliability. The t-test values ranged between 37.29 to 56.6 and all significance values were less than 0.05 which indicated that the degree of compliance with all internal control components were statistically significant.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on banks' ability to investigate staff fraud and staff lifestyle and fraud detection in Nigeria. Data were collected from 13 Nigerian banks using a Four Point Likert Scale questionnaire and analyzed using percentages and ratios. The study found that internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud

while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud. In addition, most Nigerian banks do not pay serious attention to the lifestyle of their staff members and that most staff members are of the view that effective and efficient internal control design could detect employee fraud schemes in the banking sector. The study concluded that effective and efficient internal control system is necessary to stem the malaise in the banking sector. The study therefore recommended that banks in Nigeria should upgrade their internal control designs and pay serious attention to the lifestyle of their staff members as this could be a red flag to identifying frauds.

Mawanda (2008) conducted a research on the effects of internal control systems on financial performance in institution of higher learning Uganda. In his study, he investigated and sought to establish the relationship between internal control systems and financial performance in an institution of higher learning in Uganda. Internal controls were examined from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The research was conducted using both quantitative and qualitative approaches using survey, correlation and case study. Data was collected using questionnaire and interview guide. The study established a significant relationship between internal control system and financial performance. The study specifically showed that control environment is positively related to liquidity with $r = 0.294$ and a standard error, $p < 0.01$.

Lemi (2015) carried out a cross sectional survey to assess the effectiveness of internal control systems in the public universities in Ethiopia and identify the possible areas of deficiencies in the internal control system. Data was analyzed using descriptive statistics and showed that internal controls in the public universities in Ethiopia were not effective.

Seble (2018) carried out a survey to assess the perception on internal control systems on financial performance of commercial banks in Ethiopia. The study adopted multiple regression models to test the relationship between internal controls and financial performance. The study findings showed that internal control systems had a significant relationship with financial performance. The findings also suggested that internal control systems especially corporate governance and control activity are important areas that management of commercial banks should give attention to improve financial performance of commercial banks in Ethiopia.

Ejoh and Ejom (2014) did a study to establish the relationship between internal control activities and

financial performance in Tertiary Institutions in Nigeria. The study was carried out at Cross River College of Education. The study employed survey design while stratified sampling procedure was adopted to administer questionnaires targeting at the top management staff of the College. Correlation design was adopted to assess the relationship between internal audit function and financial performance. The findings of their study revealed no significant relationship between internal control activities and financial performance.

Kinyua et al., (2015) carried a research on the effects of internal control environment of the financial performance of companies quoted in the Nairobi Securities Exchange. Internal control system was measured in terms of control environment, internal audit function, risk management control, internal control activities, corporate governance control while financial performance was measured in terms of net profit, return on equity and earnings per share. A Structured questionnaire was used to collect data from 144 respondents. The study adopted descriptive research design using both quantitative and qualitative analysis. Multiple regression models were used to test whether internal control environment, internal audit function, risk management, internal control activity and corporate governance have any influence on financial performance. The study findings revealed that internal control system is a positive significant predictor of financial performance. The findings of the study revealed that internal control system has a significant relationship with financial performance ($R^2 = 0.944$). the Pearson correlation results indicated that risk management was leading with the highest influence on financial performance at 0.55 followed by corporate governance at 0.554, internal control activity at 0.457, internal control environment at 0.420 and internal audit function at 0.341.

Oyoo (2014) conducted a study to evaluate the effect of internal control on financial performance of micro-finance institutions (MFI) in Kisumu central constituency, Kenya. The internal control was considered from the perspective of control environment, control activities and information and technology whereas financial performance focused on liquidity. The study adopted the descriptive and correlation research design and data was collected from 7 institutions from a population of 18 MFIs. Questionnaires were used to collect primary data and the data was analyzed by using correlation analysis. The study finding revealed that there was a positive relationship between internal control and financial performance of MFIs at a Pearson correlation coefficient of $r = 0.0447$; $p = 0.007$. This showed that internal control affects financial performance of MFIs by 44.7%.

Gathoni (2013) conducted a study on the factors that affect sustainability of micro-credit groups in Kalama Ward- Machakos County in Kenya. Primary data was collected mainly using questionnaires. Out of the 2287 clients in Machakos region which comprises 183 active

groups and 40 inactive groups, 330 clients from Kalama Ward and 12 staff were considered and applied stratified random sampling applied leading to a sample of 52 respondents. This study concluded and recommended that policy and internal control are the foundations of strong groups and form the basis of partnership with service providers. Well-articulated constitution and credit policy facilitate client appraisal and set the basis of vetting criteria when evaluating prospective loan applicants.

Mwachiro (2013) established that internal controls played an important role in ensuring revenue collection were done effectively. The research was conducted using both qualitative and quantitative approaches. Questionnaires were used on a population of 38 respondents to gather primary data for the study. The data collected was then analyzed and findings revealed that the five components of control environment, risk assessment, control activities, information and communication and monitoring must be available in order for internal controls to work. The study established that weak internal controls have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls usually function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA. The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified.

Olumbe (2012) conducted a descriptive survey research on Commercial banks in Kenya. The study sought to establish the relationship between internal controls and corporate governance in commercial banks in Kenya. The study adopted census survey on 45 commercial banks in Kenya with target population being senior management in charge of internal control. The study concluded that most of the banks had incorporated the various parameters that are used to gauge internal controls and corporate governance. This was indicated by the means that were obtained enquiring on the same and this showed that the respondents agreed that their banks had instituted good corporate governance with a strong system of internal controls and that there is a relationship between internal control and corporate governance.

Mbaka, Kiragu and Kamau (2018) researched on the effects of internal control systems on financial performance of SACCOs in Nyeri Central sub-county, Kenya. The study targeted 26 operating SACCOs in Nyeri Central Sub-County. The study adopted cross-sectional survey research design and data was collected using questionnaires. Multiple regression analysis was used to analyze the Effects of internal controls on the financial performance of SACCOs in Nyeri central sub-county. The study finding indicated that internal control environment, risk assessment control and activity control

had a positive and statistically significant effect on financial performance of SACCOs

In their study (Nyakundi, Nyamita and Tinega, (2014) sought to examine the effect of internal control systems on the financial performance of Small and Medium Scale Enterprises in Kisumu City. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data and collected data was analyzed using descriptive as well as inferential statistics. The findings of this study indicated a positive and significant association internal control systems financial performance of Small and Medium scale Enterprises.

Kakucha (2009) carried out a study to evaluate the level of effectiveness of internal controls operating in Nairobi. The study adopted quantitative approach and used a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. The study established that there is a negative correlation between the resources held by an enterprise and its internal control weaknesses. The study also established a weak negative relationship between the internal control weaknesses and financial performance.

Reviewed literature has shown that prior studies on the effect of internal controls and financial performance have produced inconclusive results. Mawanda (2008); Nyakundi, Nyamita and Tinega, (2014); conducted studies on the effect of internal controls and financial performance, and revealed a significant and positive results. This was in contradiction to the findings of Duh, Chen, Lin, & Kuo (2014); Kakucha (2009) who established a negative relationship between the internal control and financial performance. Despite the fact that internal controls play a fundamental role in the SACCOs management, there is lack of empirical studies on the effect of internal controls and financial performance. Reviewed literature has focused on banks and institutions of higher learning. However, no attention has been given to SACCOs in Kenya. Hence this study sought to fill this gap by investigating the effect of internal controls on the financial performance of DT-SACCOs in Kenya.

The forgoing reviews of the literature that have focused on internal controls and financial performance have produced inconclusive results. A review of prior studies conducted show that most studies tend to focus on the evaluation of the various aspects of internal controls and how they relate to financial reporting, performance reporting and external auditors' work with little focus on financial performance. However, there is paucity of studies conducted on internal controls and its effect on financial performance of SACCOs in Kenya. The studies reviewed focused on the three elements of the internal control systems namely control environment, control activity and internal audit. However, the studies failed to show the contribution of monitoring activity, risk

management and corporate governance in the financial performance of organization. Hence this study sought to fill this gap by establishing the effect of internal controls on the financial performance of DT- SACCOs in Kenya.

METHODOLOGY

The study adopted the correlation research design. Quantitative approach was used since audit committee characteristics and internal controls can be quantified (Fabozzi, Focardi, & Ma, 2005). The research was carried out in Western Kenya and focused particularly on the Deposit Taking SACCOs (DT-SACCOs) registered by SASRA. The population of this study comprised 40 deposit taking SACCOs in western Kenya. For the purposes of this study, the unit of analysis was 120 senior managers comprising the chief executive officers, finance managers and internal auditors from each of the 40 DT-SACCOs in Western Kenya. Primary data was collected from the three (3) Senior Managers of each DT-SACCO in Western Kenya. The study targeted Senior Managers since they are well conversant with operations of the SACCO and are well versed with information concerning the performance of audit committee.

The study employed census on all the forty (40) Deposit taking SACCOs in Western Kenya. A sample of the three (3) Senior managers comprising the chief executive officers, Finance managers and Internal auditors from every Deposit taking SACCOs in Western Kenya was selected to be the respondents. The data collected was analyzed, with respect to the study objectives, using inferential statistics. Pearson's correlation coefficient was used to measure the strength and direction of the relationship between the dependent and independent variables.

The study adopted a multiple linear regression to analyze the relationship between the effects of internal control on financial performance of SACCOs in Western Kenya. The following model was adopted in the study:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \dots \dots \dots (i)$$

Where:

- Y_i = Coefficient of a single financial performance indicator (Capital adequacy, Asset quality, earnings ratings and Liquidity ratings)
- β_0 = Coefficient estimate of intercept
- X_1 = Control environment
- X_2 = Control activities
- X_3 = Risk assessment
- X_4 = Monitoring activities
- X_5 = Information technology
- $\beta_1 - \beta_5$ = Measure of sensitivity of variable x to changes in y

e = Error term/ residual factor not explained by the X variable analyzed.

Source: adapted from Aiken and west (1991)

FINDINGS

The data was collected from 40 SACCOs registered and licensed by SASRA and with headquarters in Western Kenya. The target population was 120 Senior Managers, out of whom 10% were used for piloting. From this total, responses were received from 100 respondents translating into 93% response rate. The response was considered appropriate since Bailey (2000) asserts that

any response above 70% is classified as very good. This is also in line with Mugenda & Mugenda (2003) that observes that any response rate above 70% is rated as very good.

For the study objective, the study sought to investigate the relationship between internal controls and financial performance of SACCOs in Western Kenya. The dimensions used to investigate internal controls were control environment, monitoring activities, risk assessment, information technology and control activities while dimension of financial performance were capital adequacy, asset quality, earning ratings and liquidity ratings. The results are revealed in Table 1.

Table 1: Overview of Internal Controls and Financial Performance

	Min. Statistic	Max. Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic	Kurtosis Statistic
Financial Performance	1	5	3.59	0.911	-0.150	-0.365
Control environment	2	5	3.61	0.650	-0.082	-0.132
Monitoring activities	3	5	4.04	0.710	-0.057	-0.983
Risk assessment	2	5	3.89	0.601	-0.240	0.533
Information technology	1	5	3.17	1.120	0.097	-0.796
Control activities	2	5	3.52	0.822	0.102	-0.497

Source: Research data

From Table 1 above, the minimum, the maximum, the standard deviation, the skewness and kurtosis results were depicted. The table indicated that the minimum and the maximum statistics for financial performance was 1 and 5 with a mean of 3.59 and a standard deviation of 0.911. However, going by the level of skewness, the financial performance variable was normal since the value of the skew rotated around 0. The kurtosis value indicated that the variable was leptokurtic (had a thin tail) i.e. less than 3, a standard for kurtosis normality.

On control environment, the minimum value was 2 and the maximum value was 5 with a standard deviation of 0.650 given the value of the skew and the kurtosis, the conclusion was that the variable was normally distributed although with a thin tail. Monitoring activities had a minimum of 3 and a maximum of 5. The standard deviation was 0.710 and the skewness value indicated a normal distribution although with a thin tail. Risk assessment had a minimum of 2 and a maximum of 5 with a mean of 3.89 and a standard deviation of 0.601.

Equally, it was normally distributed with a thin tail. Information technology also had a minimum of 1 and a maximum of 5 with a mean of 3.17 and a standard deviation of 1.120 the distribution was normal albeit with a thin tail. Control activities also had a minimum of 2 and a maximum of 5 with a mean of 3.52 and a standard deviation of 0.822 the distribution was also normal with a thin tail.

Correlation Analysis between Internal Controls and Financial Performance Subscales

The first objective of this study was to establish the effect of internal controls on financial performance of DT-SACCOs in Kenya. To achieve this, the obtained scores of the five categories of the financial performance were correlated with internal controls using bivariate correlations, specifically, Pearson Product moment correlation. Table 2 indicates the findings between the five subscales of performance and the independent variable (Internal controls).

Table 2: Correlation Analysis between Internal Controls and Financial Performance

Variables	Financial performance	Controls environment	Control activities	Monitoring activities	Risk assessment	Information technology
1 Financial performance	1	.546**	.530**	.526	.452**	.653**
2 Control environment		1	.383**	.363**	.277	.536**
3 Control activities			1	.258**	.403**	.484
4 Monitoring activities				1	.318**	.373**
5 Risk assessment					1	.313**
6 Information technology						1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Survey (2020)

From Table 2, the results indicate that there is a strong positive and significant association between financial performance and control environment ($r = .546, p < .05$). Financial performance and control activities revealed a strong positive correlation ($r = .530, p < .05$), as was the case with financial performance and monitoring activities ($r = .526, p < .05$), and financial performance and information technology ($r = .653, p < .05$). With regards to the level of association between financial performance and risk assessment, there was a significant yet a weak association ($r = .452, p < .05$). The study finding imply that financial performance was positively correlated with every aspect of internal control. Therefore, the more the SACCOs put in place effective internal controls the better the financial performance. The relationship

between technology and financial performance was stronger than others. This implied that the financial performance of the SACCOs is heavily dependent on the adoption of effective information technology.

Regression Analysis on the Relationship between Internal Controls and Financial Performance

The study sought to examine the relationship between internal controls and financial performance. Regression analysis was therefore conducted to ascertain the magnitude of the effect the correlation between the two variables accounted for. The summary model findings are presented in Table 3 below using coefficient results.

Table 3: Summary Model on the Relationship between Internal Controls and Financial Performance

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Change Statistics R Square Change	F Change	df1	df2	Sig.	Durbin-Watson
1	.777 ^a	.603	.582	.589	.603	28.580	5	94 ^a	.000	1.807

a. Predictors: (Constant), information technology, risk assessment, monitoring activities, control activities, control environment

Source: research data

Regression analysis was conducted to empirically determine whether internal controls was a significant determinant of financial performance. The findings in Table 4.19 above indicate that there is a positive significant multiple correlation between internal controls and financial performance ($R = .777$). It is also clear from the model that internal controls explained 60.3% of the total responses to financial performance ($R^2 = .603, p = .000$). The study shows that Internal controls through its dimensions explains 58.2% of variation in Financial performance (adjusted $R^2 = .582$). Given that

the F-statistics was 28.580 and was significant at 0.000, there was an overall goodness of fit implying that the results from this study can be replicated elsewhere. The Durbin – Watson statistics also gravitated towards 2 meaning that there was no problem of autocorrelation within the study variables. It can thus be concluded from the findings that internal controls explain a bigger percentage of financial performance of SACCOs in Kenya. It is therefore necessary to establish an efficient and effective internal controls system within the SACCOs.

Table 4: Summary Model Results on the Relationship between Internal Controls on Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.972	.496		-1.958	.053
Control environment	.231	.112	.165	2.069	.041
Control activities	.198	.087	.179	2.271	.025
Monitoring activities	.315	.094	.245	3.353	.001
Risk assessment	.226	.111	.149	2.032	.045
Information technology	.277	.068	.340	4.041	.000

The established regression equation was

$$FP = -0.972 + 0.231X_1 + 0.198X_2 + 0.315X_3 + 0.226X_4 + 0.277X_5 \dots \dots \dots (i)$$

From Table 4 above, the results indicate that in the absence of the internal control constructs, performance would deteriorate by -0.972. However, this outcome is not significant. With regards to the control environment, a unit increase on it, results into a significant increase in financial performance by 0.231 ($p = 0.041 < 0.05$). A unit increase in control activities leads to a significant increase in financial performance by 0.198 ($p = 0.025 < 0.05$). A unit increase in monitoring activities leads to a significant increase in financial performance by 0.315 ($p = 0.001 < 0.05$). A unit increase in risk assessment leads to a significant increase in financial performance by 0.226 ($p = 0.045 < 0.05$). A unit increase in information technology leads to a significant increase in financial performance by 0.277 ($p = 0.000 < 0.05$).

The findings of this study show that keeping all factors constant, an increase of control environment leads to 0.231 increase in the SACCOs' financial performance. This is supported by Mawanda (2008) who evaluated the effect of internal control systems on financial performance of institutions of higher learning in Uganda. Data was analyzed using regression model and the result of analysis exhibited a positive relationship between internal controls (control environment) and financial performance. The study findings revealed that an increase in control activities will lead to 0.198 increase in the SACCOs' financial performance. This finding also support the study by Muraleetheran (2012) who examined the internal controls and its impact on financial performance of organizations in Jaffna District, India. The study concluded that internal controls has an impact on financial performance. On monitoring activities, the study established that an increase in monitoring activities leads to 0.315 increase in financial performance of SACCOs. The findings confirm the argument of Mwachiro (2013) that for internal controls to work effectively, monitoring activities must be available and that weak monitoring activities encourage collusion to fraud, loss of revenue and embezzlement of funds.

The study findings also established that holding other factors constant, an increase in risk assessment leads to 0.226 increase in financial performance. This finding is in line with Mbaka et al. (2018) who found that control environment, risk assessment have a positive and statistical significant effect on financial performance of SACCOs. These findings are also in line with Nyakundi, Nyamita and Tinega (2014) that internal controls have a positive and significant association with financial performance. The findings therefore suggest that the management of DT-SACCOs should pay more attention to the SACCO's internal controls functions such as control environment, control activities, risk assessment, monitoring activities and information technology in order to improve the financial performance of the DT-SACCOs in Kenya.

SUMMARY OF FINDINGS

The study objective sought to examine the relationship between internal controls and financial performance of Deposit taking SACCOs in Western Kenya. Analysis revealed that internal controls have a high effect on financial performance of Deposit taking SACCOs in Western Kenya. The findings therefore suggest that internal controls aspect such as control environment, control activities, risk assessment, monitoring activities and information technology are significant aspects of an effective internal control system hence the management of DT-SACCO's should give more attention to internal controls in order to improve the financial performance of DT - SACCOs.

From the study hypothesis: there was no significant relationship between internal controls and financial performance of deposit taking SACCOs in Western Kenya. The study findings revealed that there was a strong positive relationship between internal controls and financial performance. Internal controls is strongly related to financial performance and therefore the establishment of effective internal controls increases the financial performance of SACCOs in Western Kenya. It is further concluded that effective internal controls must include control environment, control activities. Monitoring activities, risk assessment and information technology to enhance financial performance.

The study concluded that effective internal controls must include control environment, control activities. Monitoring activities, risk assessment and information technology to enhance financial performance. This will help in promoting efficiency of SACCO operations by reducing risks relating to asset loss and reliability of financial statements and compliance with laws and regulations. The management therefor should focus on the aspects of internal controls that could result into improved financial performance

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