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Influence of Internal Control Practices on Financial Reporting Performance of Deposit Taking SACCOs in Uasin Gishu County, Kenya.

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Abstract: *The performance of SACCOs just like the DT Saccos is highly threatened by credit risk calling for proper risk management. This is justified by the fact that most borrowers have had problems relating to loan repayment making Sacco's to carry huge bad debts in their loan books but their sustainability depends on effective debt repayment by member borrowers. In this regard, the study assessed the influence of credit management on financial performance of Saccos in Uasin Gishu County, Kenya. The study aimed at establishing the influence of internal control practices on financial reporting performance of Deposit Taking SACCOs in Uasin Gishu County, Kenya. The study adopted a descriptive survey design with a target population of 175 employees form 15 DT SACCOs from Uasin Gishu County, Kenya. Census survey method was used in which accessible population was taken into account. Primary and secondary data were be used in this study. Primary data was collected by use of questionnaires. Data was analysed by use of descriptive and inferential statistics by use of SPSS version 24. To determine the validity of the questionnaire items, research experts were used to examine them and their suggestions and comments used as a basis to modify the research items. KMO and Bartlett's test of sphericity were also used to establish the construct validity of the research instrument. Cronbach alpha coefficient was used as a reliability test. A value of above 0.7 confirmed the reliability of the research instruments. The data was analyzed using both inferential (multiple regression and correlation) and descriptive statistics (frequencies, percentages, mean and standard deviation). Findings revealed that internal control practices had a significant positive effect on financial reporting performance ($\beta=0.293$, $p < 0.05$). The study concluded that Internal Control Practices improves the financial performance of DT Saccos. The study recommended that the management of the DT Saccos should continue to put in place proper monitoring and evaluation mechanisms for effective reporting system.*

Key words: *Internal Control Practices, Financial Reporting Performance, Kenya*

I. INTRODUCTION

Savings and Credit Cooperative Societies (SACCOs) are quasi-financial institutions that assist its members by raising money and providing loans and other products (Kenya Union of Savings and Credit Co-operatives, KUSSCO, 2009). The applicable national laws were used to organize and regulate savings and credit cooperative organizations, which are legal corporations. It is an autonomous collection of people who have voluntarily joined forces in order to assist one another's needs and objectives in the economic, social, and cultural spheres via a company that is jointly owned and democratically administered (Dhakal, 2021). SACCOs are crucial because they combine members' finances and provide them credit in return, which they then have to pay back with interest. At least 100 million people worldwide are employed by SACCOs, and estimates indicate that close to half of humankind depends on cooperative enterprise for their existence (ICA, 2015). SACCOs play an increasingly important role in the financial sector by meeting the credit needs of low-income households in both urban and rural locations. Hence, enhancing cooperative performance might act as a driving force in achieving the Sustainable Development Goals (SDGs). Nonetheless, SACCO management struggles to increase revenues since doing so entails higher risks that imperil their capacity to operate profitably (Wairimu & Wekesa, 2017). According to a 2008 study by WOCCU & FSD, the majority of SACCOs are unable to meet the loan and withdrawal requirements of their clients and many are dealing with substantial debt management problems, such as loan default. In this regard, credit risk management is essential to the performance and sustainability of SACCOs.

Credit risk significantly jeopardizes SACCO performance, just as it does for DT saccos, necessitating good debt management (Bhattarai, 2016). This is explained by the fact that most borrowers have had issues with loan repayment, causing SACCOs to hold significant amounts of bad debt in their loan books, while their viability relies on successful debt repayment by member borrowers (Lagat, Mugo, & Otuya, 2013). In order to maximize benefits to members, which includes the social function of reducing member poverty via loan supply, SACCO

managers must reduce the risk of loan default since the alternative would have a detrimental effect on their financial sustainability. The SACCOs are exposed to a significant default risk throughout the credit generation process, which might result in financial difficulties and insolvency (Kariuki, 2017). In order to eliminate or reduce this credit risk and improve performance, SACCOs are required to implement credit risk management. Credit risk management is defined as the identification, measurement, monitoring, and control of risk resulting from the potential for loan repayment failure, according to Coyle, 2000, quoted in (Murigi & Thuo, 2018) and Raad (2015). Although SACCOs issue credit with the idea that every member would return their loans, some members often fail, which causes SACCOs' revenue to decline as a consequence of the need to make loan payments.

The 10% annual economic growth target established by Kenya's economic plan, Vision 2030, depends on the financial services sector (FSS), which includes the Kenyan SACCO industry. (SASRA, 2019). Despite their efforts to address the poor debt management, they continue to struggle with credit risks, which has a negative impact on their financial performance. Thachappilly (2011) asserts that the financial performance of the SACCO firm is a crucial component of its existence. Inadequate risk assessment methods have led to a significant number of non-performing loans, poor loan repayment, and irregular lending, which have all negatively impacted SACCO performance (SASRA, 2019). SACCO failure rates now stand at 51% as a result of this. 2016 (Otieno & Oyugi). Lack of risk-sensitive credit worthiness requirements and a lack of incentives for SACCOs to enhance their risk management systems may be to blame for these problems (Porvali, 2013).

DTSs are required to maintain a minimum of Ksh 10 million in core capital as well as the following capital adequacy ratios: 10%, 8%, and 8%, respectively, for core capital to total assets, core capital to deposit liabilities, and institutional capital to total assets. This has caused a credit management conundrum since a few of SACCOs have not fully complied. Both developed and developing countries have performed a lot of study on credit management, mostly focusing on large financial institutions like DT saccos (Kalui & Kiawa, 2015). However, there are limited studies in developing countries, especially in sub-Saharan Africa (Nyankomo, 2015). In addition, there are no known studies on credit management and financial performance of deposit taking SACCOs in Uasin Gishu County, region of Kenya. The central question begs on how significant the effect of internal control practices on the financial performance of deposit taking SACCOs was to fill in the existing gap in literature. The remainder of this article is as follows; section 2 cover literature review, section 3, Materials & Methods, section 4, results & discussions and section 5, conclusion and recommendations.

II. LITERATURE REVIEW

2.1 Internal Control Practices and Financial Performance

A number of studies have been done locally and globally in regard to internal control system and financial performance. Ibrahim, Diibuzie, and Abubakari (2017) on their study on the Impact of Internal Control Systems on Financial Performance: The Case of Health Institutions in Upper West Region of Ghana found a positive relationship between internal controls and financial performance. But only three of the control variables remained significant with p-values less than 5%. The study recommended that the governing body of the institutions, possibly supported by the audit reports implementation committee (ARIC), ensure that the appropriate internal control systems recommended by the auditors in health institutions are monitored periodically. This study was not conducted in Kenya and therefore leaves a room for further study in Kenya's Uasin Gishu County region.

According to Mawanda (2019) on his study on effects of internal control system on financial performance in an institution of higher learning in Uganda. A case of Uganda Martyrs University. The study found that management of the institution is committed to the control systems, actively participates in monitoring and supervision of the activities of the University, all the activities of the Institution's activities are initiated by the top level management, that the internal audit department is not efficient, is under staffed, doesn't conduct regular audit activities and doesn't produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system. The study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the University. It was also noted that there isn't enough cash to meet intended University goals, that the fees charged to students are not appropriate to cover costs, that all fees meant to be remitted to the University are not collected. The study established a significant relationship between internal control system and financial performance. This study

was not done in Kenya and moreover, it did not look at Saccos and therefore the findings cannot be such generalized.

Muhunyo (2018) studied effect of internal control systems on financial performance of public institutions of higher learning in Nairobi city county, Kenya. He used descriptive statistics in the data analysis and presented information in statistical forms. The study also used multiple linear regression to analyze the relationship between the dependent and independent variable. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya. The variables explained 99.1% of the changes in financial performance of the institutions. The study thus recommended that internal control systems among the institutions need to be improved and accountability of organizational resources be upheld. This study did not look at Saccos and more still was not conducted in Uasin Gishu County region of Kenya thus leaving a gap.

According to Munene (2013) in effect of internal controls on financial performance of technical training institutions in Kenya established a significant relationship between internal control system and financial performance. The investigation recommended competence profiling in the Internal Audit department which should be based on what the Technical Training Institutions in Kenya expects the internal audit department to do and what appropriate number staff would be required to do this job. It also recommends that the institutions establish and manages knowledge/information management system to enable all parties within the institution to freely access and utilize the official information. There should be a strategy to improve the generation of additional finances for the Technical Training Institutions in Kenya. The Study therefore concludes that internal control systems do function although with hiccups and that there is a significant relationship between internal control systems and financial performance of Technical Training Institutions in Kenya. The study however did not look at Saccos nor financial institutions and thus leaves a gap to be filled.

Ekessa (2019) in her study on effect of Internal Control Practices on The Financial Performance of Agro-processing Firms in Kisumu County, Kenya found that that there is a positive relationship between internal controls environment, risk assessment, monitoring, information and communication, control activities and financial performance of Agro processing firms. The study also recommended that internal and external auditors should be constantly updated and well conversant in international financial reporting standards (IFRS) and principles, in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues. This study also did not look at the effect of ICS on financial performance of Saccos and therefore the findings cannot be comfortably generalized on the financial sector of the economy. This leaves a gap that needs to be researched on. Literature reviewed led to development of the following hypothesis statement.

H_{01}: *There is no significant influence of internal control practices on the financial performance of deposit taking SACCOs in Uasin Gishu County, Kenya.*

III. MATERIALS & METHODS

A research design is an outline for collection, measurement and analysis of data. It guides the entire research process (Gupta & Gupta, 2022). It guides the entire research process (Pandey & Pandey, 2021). The study adopted a cross-sectional research design. This is because such studies around this thematic area haven't been conducted more clearly, thus the researcher intended to establish priorities, develop operational definitions and improve on the clarity of the previous studies. The researcher adopted this research design because of the scanty past data and just a few studies for reference (Kumar, 2018). The target population for the study were all employees working in deposit taking Saccos in Uasin Gishu County, Kenya. The term "accessible population" refers to a subset of the "target population" that the research can actually contact in order to take part in the investigation. So, the population that was accessible for this research consisted of all individuals working in all the 15 DT Saccos in Uasin Gishu County.

The study used census as the study population is small. Therefore, all the 175 employees of the 15 Deposit Taking Saccos in Uasin Gishu County of Kenya branches were included in the study. This gave an accessible sample population of 175 respondents. The study used questionnaires in order to get first-hand data on debt

management. Through the use of questionnaires, the respondents were given enough time to provide thoughtful responses. The secondary data to be collected was compiled through document review. The majority of the time, documentary analysis was provided a data source that is publicly available, permanent, and in a format that can be examined by other people, (Glenn, 2009). Pilot study was done on 10% of the total size of the population being sampled (Orodho, 2009). This is equivalent to 18 respondents which were selected at random from Deposit Taking Saccos in the city of Kisumu. The final research did not include any of the participants who took part in the pilot testing.

The supervisor was consulted in order to confirm that the research questionnaire has content validity. This was helpful in assessing the notion that the questionnaire is attempting to evaluate and determining whether or not the selection of questions effectively reflects the concepts. The Cronbach's alpha coefficient was above 0.7 and therefore the research instrument was reliable. After collecting the data, the data was organized, edited, coded, and stored before being evaluated. Inferential statistics as well as descriptive statistics were used in the process of data analysis. Tools for descriptive statistics include; frequency and percentages, as well as means and standard deviation. The use of regression analysis and the Pearson Product Moment Correlation was part of the inferential statistics presented. The information was laid up in tables.
The following regression model was used;

$$\mathbf{Y=\alpha+\beta_1 X_1+\varepsilon}$$

Where, Y represents the dependent variable (financial performance), α represents the constant, the β_1 represents the coefficient of internal control practices, X_1 represents internal control practices, and ε represents the random error term.

IV. RESULTS & DISCUSSIONS

4.1 Descriptive Statistics

The study analyzed the views of the respondents in respect to Internal Control Practices and financial performance. Table 1 shows the results of the analysis.

Table 1: Descriptive statistics for Internal Control Practices

	N	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean	Std. Dev
Our SACCO adopts financial practices that enable profitability measurements	138	11.7	65.5	13.8	7.6	1.4	3.93	.814
Our SACCO puts in place proper monitoring and evaluation mechanisms for effective reporting system	138	18.6	35.9	26.9	17.9	0.7	4.14	.972
Our SACCO ensures accountability and of payments for timely reports to SASRA	138	60.0	24.8	0.0	2.1	13.1	3.95	1.193
Our SACCO ensures good financial practices to enable timely reports to SASRA	138	35.9	41.4	6.9	6.2	9.7	4.02	1.083
Our SACCO provides for good monitoring and evaluation to enable profitability measures	138	30.3	46.2	7.6	12.4	3.4	4.12	1.051
Our SACCO sees into it that there is good accountability of payments to ensure effective reporting system	138	41.4	42.1	0.0	10.3	6.2	3.85	1.192
Our Sacco ensures proper auditing and assurance exercise	138	17.2	40.3	34.5	5.5	2.1	4.33	.965
Our Sacco incorporates auditing and assurance in its financial practices	138	26.9	46.9	13.8	6.2	6.2	4.14	1.269

Valid N (Listwise)	138							
Weighted Mean							3.85	

From Table 1, the results indicate that the respondents agreed with (mean = 3.93; Std Dev = .814) that their SACCOs adopt financial practices that enable profitability measurements. The results also indicated that the respondents were in agreement with (Mean = 4.14; Std dev = 0.972) that their SACCOs put in place proper monitoring and evaluation mechanisms for effective reporting system. Findings resemble that of Muhunyo (2018) that SACCOs have put in place proper monitoring and evaluation mechanisms for effective reporting system. The results also indicated that the respondents were in agreement with (Mean = 3.95; Std dev = 1.193) that their SACCOs ensure accountability and of payments for timely reports to SASRA. The study agrees with that of Munene (2013) that SACCOs ensure accountability of payments for timely reports to SASRA.

The results further indicated that the respondents were in agreement with (Mean = 4.02; Std dev = 1.083) that their SACCOs ensure good financial practices to enable timely reports to SASRA. The study agrees with that of Ekessa (2019) that SACCOs ensure good financial practices to enable timely reports to SASRA. Additionally, the results indicated that respondents agreed with (Mean = 4.12; Std dev = 1.051) that their SACCOs provide for good monitoring and evaluation to enable profitability measures. The study is in-tandem with that of Mawanda (2019) that SACCOs provide for good monitoring and evaluation to enable profitability measures. The results also indicated that the respondents were in agreement with (Mean = 3.85; Std dev = 1.192) that their SACCOs see into it that there is good accountability of payments to ensure effective reporting system. The results further indicated that the respondents were in agreement with (Mean = 4.33; Std dev = 0.965) that their SACCOs ensures proper auditing and assurance exercise. Finally, the results further indicated that the respondents were in agreement with (Mean = 4.14; Std dev = 1.269) that their SACCOs incorporate auditing and assurance in its financial practices. The study is in agreement with that of Munene (2013) that SACCOs incorporate auditing and assurance in its financial practices.

4.2 Inferential Statistics

This section outlined the relationship between internal control practices on financial performance. This study conducted correlation analysis and regression analysis between the independent variable and the dependent variable.

4.2.1 Correlation Analysis

Correlation between variables is a measure of how the variables are related (Lindquist, Xu, Nebel, & Caffo, 2014). Bivariate correlation is a statistical technique that is used to determine the existence of relationships between two different variables (i.e., X and Y). It shows how much X will change when there is a change in Y. The bivariate Pearson correlation indicates the following: Whether a statistically significant linear relationship exists between two continuous variables. The strength of a linear relationship (i.e., how close the relationship is to being a perfectly straight line). If there is a negative sign this means that you have a negative correlation between the two variables if there is no sign in front then you it indicates a positive correlation. The correlation coefficient shows how strong the linear relationship between two variables are. If the correlation is positive, that means both the variables are moving in same direction. Negative correlation implies, when one variable increases the other variable decreases (Haining, 1991). The correlation between Internal Control Practices and financial performance in DT Saccos in Uasin Gishu, Kenya was examined and results presented in Table 2.

Table 2: Internal Control Practices

		Financial performance
Internal Control Practices	Pearson Correlation	.764**
	Sig. (2-tailed)	.001
	N	138

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

The results indicates that there is a positive and statistically significant correlation between Monitoring by Board of Directors and Financial Performance ($r = 0.764$, $p = 0.001 < 0.01$) at 0.01 level of significance. This implies that Internal Control Practices influences financial performance of DT Saccos in Uasin Gishu County,

Kenya. The study results resemble that of Mawanda (2019) that Internal Control Practices have a positive influence on financial performance.

4.4.2 Regression Analysis

The study established combined effect of Internal Control Practices on financial performance of DT Saccos in Uasin Gishu County. The results of simple linear regression analysis shown in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.418[a]	.175	.152	.39305

a. Predictors: (Constant), Internal Control Practices
b. Dependent Variable: Financial performance

The Model Summary Table 3 provides information on the regression model that was used to analyze the influence of Internal Control Practices on the dependent variable (Financial performance). The R-value of 0.418 represents the correlation coefficient between the predictor variable and the dependent variable. This indicates that there is a moderate positive correlation between the predictor variable and the dependent variable. The R Square value of 0.175 represents the proportion of variance in the dependent variable that is explained by the predictor variables in the model. This indicates that approximately 17.5% of the variation in financial performance can be explained by internal control practices. The Adjusted R Square value of 0.152 takes into account the number of predictor variables in the model, and provides a more conservative estimate of the proportion of variance in the dependent variable that is explained by the predictor variable.
The Standard Error of the Estimate (0.39305) represents the average distance between the actual values of the dependent variable and the predicted value based on the regression model. This indicates the degree of error in the model's predictions of financial performance. Overall, the model suggests that the one predictor variable has some predictive power in explaining variation in financial performance, but there is still a significant amount of unexplained variation. Further analysis or refinement of the model may be needed to better understand the relationships between the predictor variable and financial performance. Simple linear regression analysis was conducted to test the influence among the predictor variable on financial performance of DT Saccos. The test results are shown in table 4.

Table 4: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.590	1	1.148	7.428	.000[b]
	Residual	21.628	142	.154		
	Total	26.218	144			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Internal Control Practices

The Table 4 provided is an ANOVA (Analysis of Variance) table, which summarizes the sources of variation in the dependent variable (Financial performance) and provides statistical tests of the significance of the predictor variable (Internal Control Practices) in explaining the variance in the dependent variable. The Regression section provides information on the variance in the dependent variable that is explained by the predictor variable in the model. In this case, the Regression Sum of Squares is 4.590, which indicated that the predictor variable in the model account for 4.590 units of variation in the dependent variable. The Mean Square value (1.148) represented the variance in the dependent variable that was accounted for by the predictor variable. The F-statistic (7.428) tested the significance of the model as a whole, and the associated p-value (.000b) indicated that the model was statistically significant at the .05 level.

The Residual section provides information on the variance in the dependent variable that was not accounted for by the predictor variables in the model. The Residual Sum of Squares was 21.628, which indicated that there was still a significant amount of unexplained variation in the dependent variable. The Total section provided information on the total variance in the dependent variable, regardless of whether it was accounted for by the predictor variables in the model or not. Overall, the ANOVA table suggested that the predictor variables in the

model were significant in explaining the variance in the dependent variable, although there was still a significant amount of unexplained variation. Further analysis was needed to identify additional predictor variables or to refine the model to better explain the variation in financial performance. The t-test was conducted to determine whether the individual regression coefficient was statistically significant. These results were presented in Table 5.

Table 5: Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.203	.512		2.353	.020
	Internal Control Practices	.293	.090	.256	3.253	.001
a. Dependent Variable: Financial performance						

The table provides the unstandardized and standardized coefficients for each predictor variable in the multiple regression model. The unstandardized coefficients (B) represent the estimated change in the dependent variable (Financial performance) associated with a one-unit change in the predictor variable, holding all other predictor variables constant. For example, the coefficient for Internal Control Practices is .293, which meant that for every one-unit increase in Internal Control Practices, there was an estimated increase of .293 in financial performance of DT Saccos. The test was done at 95% level of confidence (α=0.05), critical value t =1.96. T-test statistic was used to test for the significance of Internal Control Practices. From Table 5, the t -value obtained was t = 3.253 at p = 0.001. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the t-calc > t-α. This study therefore rejected the null hypothesis that Internal Control Practices has no significant influence on financial performance of DT Saccos in Kenya and concluded that Internal Control Practices has a significant influence on financial performance of DT Saccos in Uasin Gishu County, Kenya. The study hence fails to reject the alternative hypothesis. The study agrees with that of Ibrahim, et al. (2017) that Internal Control Practices improves financial performance.

V. CONCLUSIONS & RECOMMENDATIONS

The study concluded that Internal Control Practices enhanced the financial performance of DT Saccos in Uasin Gishu County, Kenya. Internal Control Practices is a critical factor for financial performance of DT Saccos. Adoption of financial practices that enable profitability measurements by Saccos enhances the financial performance of the Saccos. Putting in place proper monitoring and evaluation mechanisms for effective reporting system by SACCOS improves financial performance. Ensures accountability and of payments for timely reports to SASRA by Saccos improves financial performance. Ensuring good financial practices to enable timely reports to SASRA by Saccos improves financial performance. Provision for good monitoring and evaluation to enable profitability measures by Saccos enhances the financial performance of Saccos. Ensuring proper auditing and assurance exercise improves financial performance. The study recommended that Saccos should continue to adopt financial practices that enable profitability measurements. Saccos should continue to put in place proper monitoring and evaluation mechanisms for effective reporting system. Saccos should continue to ensure accountability of payments for timely reports to SASRA.

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