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# Effect of Control Environment on Financial Performance of SACCOs in Kenya

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***Abstract:***
*The internal accounting control system is the foundation of an effective system of internal control. Most of the well-publicized failures including not only Enron and WorldCom, but also the governance failures that led to the 2008 financial crisis were, at least in part, the result of weak internal accounting control system. In the absence of a demonstrably effective internal accounting control system, no level of "design and operating" effectiveness of controls within business can provide meaningful assurance to stakeholders of the integrity of an organization's internal accounting control structure. The main objective of the study was to determine the effects of internal accounting controls on financial performance of deposit taking SACCOs in Kenya. Specifically, to examine the effect of control environment on financial performance of SACCOs in Kenya. The study employed mixed research design targeting 175 SACCOs with 875 respondents. A purposive sampling technique was used The participants were chosen based on the purpose, hence the name CEO, Finance Managers, Risk Managers, ICT Managers and Internal Auditor. Data was collected by use of both primary and secondary techniques. A pilot study was conducted to establish validity and reliability of research instruments. Primary data collection was by use of questionnaires while secondary data involved documentary analysis to capture information on financial performance. Pilot study was conducted in Nairobi County. Validity was achieved using content and construct validity where KMO value was 0.870 which signified factor analysis was appropriate. Cronbach Alpha was applied to establish reliability which had a range between 0.848 for control environmentto 0.916 for financial performance. Data was analyzed by use of descriptive and inferential statistics. Descriptive analysis included; frequencies, Mean, Standard deviation and percentage while inferential analysis involved regression analysis. From the results, there was significant positive relationship between Control environment and financial performance ($r=0.764$, $P=0.000$), control environment explains 58.4% ($R^2=0.584$) of variance in financial performance, the beta value for control environment control from the regression model was 0.323 at $p< 0.05$. The study concluded that control environment has significant positive effect on financial performance. The study recommended that Control environment techniques should be proactive and thus opportunity and justification to commit fraud would reduce hence increase in financial performance.*

***KeyWord***: *Internal Control Accounting System, Control environment, Financial Performance, Saccos,*

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## I. Introduction

Savings and Credit Co-operative society is a co-operative Society,whose objectiveisto encourage its members to save, thereby creating and accumulating capital, which is then on lend to the members at a reasonable rate of interest. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks such as rural or poor areas. The core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit (Anania & Rwekaza, 2018). SACCOs in Kenya in their struggle to achieve this objective have been able to mobilize over Kshs.350 billion in savings (Gikuri & Hall, 2015).

Further, The Vision 2030 strategy among other things requires the financial services sector to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present. This sector will assist the mobilization of investment funds required to implement the projects of Vision 2030. SACCOs are among the financial services strategies to be implemented in this exercise. Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions will play a crucial role in improving the reach and access of financial services (currently only 19% of Kenyans have access to formal financial services). It is notable that the financial services contribute about 4 per cent to GDP and its assets contribute equivalent to about 40 per cent of

GDP. In the vision 2030, there will be development of vibrant and stable financial system to mobilize savings, and to allocate these resources more efficiently in the economy, where the participation of SACCOs will be very crucial (Gogo & Oluoch, 2017). The sustenance of SACCO would widen the financial inclusion 'net' to include the excluded majority (those regarded as poor in the society).

SACCOs in Kenya are currently a leading source of co-operatives credit for socio-economic development. The cooperative movement in Kenya now boasts of an annual turnover of Ksh 43.6 billion which is equivalent to 4.5% of the country's Gross Domestic Product (GDP) (SASRA, 2013). This is a huge impact as the movement plays an important role in financial deepening and intermediation in the financial industry. In their operations, cooperatives have mobilized savings of over Ksh 350 billion and provided affordable credit facilities of over Ksh 180 billion to their members. Savings and credit cooperative organizations (SACCOs) control over Ksh 250 billion with over 1.8 million members. Indeed, the government took cognizance of this key sector in financial deepening and provided a legal framework to govern this sector called the SACCO societies regulatory authority (SASRA).

Mbuti (2014) established that SACCOs continue to perform poorly financially due to poor management and fraud. Agrawal and Cooper (2007) observe that key governance characteristics such as independence of boards and audit committees, and the provision of audit services by internal auditors are important factors that affect performance. Audit reporting is valuable in providing oversight of a firm's operations and financial reporting. However, the quality of the audit reports and who the internal audit function reports to are as important. Chen and Divanbeigi (2019) established that poor management and corporate governance in SACCOs continue to hamper their performance and growth.

There have been various governance scandals that have affected various entities. SACCOs have not been untainted by these scandals as they have been subject of many financial and corporate governance issues. SACCO governance is the system in which SACCOs as is the 1case with other organizations are led. Governance enables a SACCO to be managed effectively and to ensure that leaders of the SACCO are held accountable for their management actions and to ensure that they manage the SACCOs in the members' interests (Odek & Anyira, 2017).

Marita (2016), states that internal control put in place and enforced is key to combating the loss of revenue and assets caused by frauds. Internal control is looked upon more and more as a solution to a variety of potential problems Coso (2004). Coso adds that internal controls are put in place to keep organization on course towards profitability goals and achievement of its missions and to minimize surprises along the way. They promote efficiency, reduce risk of asset loss and help to ensure reliability of financial statements and compliance with laws and regulations. According to Musa (2008), internal control is a system that comprises control environment and control procedures. it includes all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objectives. The researcher suggested that a good internal control system ensures that functions/duties are properly defined and that duties are properly assigned to qualified staff and that there is an inbuilt control in the system to ensure feedback, detection and correction of errors in good time. It is the overall good of any organization to ensure its continued existence and growth. They must strive to enhance performance in the ever competitive finance market and internal control is an institutional strategy for business sustainability.

Kiragu and Okimbo (2014) analyzed the financial factors affecting financial performance of deposit taking savings and credit cooperative societies in Kenya, the study found out that fund misappropriation influences financial performance of SACCOs. Kivuvo and Olweny (2014), studied performance of SACCOs in Kenya using the Altiman Z Score Model of Corporate Bankruptcy, bankruptcy predictor variables were studied and financial stability of SACCOs. The study found out that liquidity and leverage had statistical significant impact of SACCO financial performance. This study examined the effects of internal factors on financial performance of deposit taking savings and credit societies in Kenya. Moreover, the researcher acknowledges the effect of internal control system on financial performance of deposit taking savings and credit societies are scanty. Thus, the research study will be conducted to fill this research gap.

Kinyua, Gakure, Gekara and Orwa (2018) noted that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy and operating style, and organizational structure. The study by Wallace and Kreutzfeldt (2019) was among the first to demonstrate the importance of the control environment in explaining the existence of an internal audit function. More recently, Goodwin-Stewart & Kent (2016) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Recent case studies on internal auditing in Belgium illustrated the importance of the control environment when studying internal control practices. Sarens and De Beelde (2017) found that certain control environment characteristics (e.g., tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated) are significantly related to the role of the internal audit function within an organization. The tone-at-the-top refers to a company's ethical values, management's philosophy and operating style (Cohen et al., 2002) which are reflected by the company's code of conduct or code of ethics.

### *StatementoftheProblem*

SACCOs play a very significant role in the provision of financial services and also they have a role in the achievement of development goals. Despite the significant government initiative, SACCOs continues to frustrate SDGs and vision 2030 objectives of increasing financial inclusion. According to SASRA report (2020), SACCOs in Kenya have shown poor financial performance where it's apparent that the average growth rates of the Deposit Taking have continued to shrink over the three (3) years comparative period resting with an average growth rate of 5.23% in 2020. If the trend continues, then the market share Deposit Taking -SACCOs is likely to be greatly reduced which is likely to impair their competitiveness and sustainability. The Deposit Taking - SACCOs reported the lowest growth rates over the three (3) year periods at 8.69% in 2017/2018; 7.64% in 2018/2019 and resting at a low of 7.51% in 2019/2020. Secondly, Mwalimu National Sacco executives, either naïve in such acquisitions, or driven by self-interest pushed on with the deal, ignored all red flags and bought 75 per cent of the bank in one fell swoop which costed Sh2.4 billion violating all necessary procedures despite red flags being raised by other apex organizations. Further, basing on the inspection report compiled by the SACCO Societies Regulatory Authority SASRA (2018), it was indicated that poor performance of SACCOs in Kenya have been caused by mismanagement, fraud, corrupt practices and creative accounting tactics to cover up poor performance which led to various sanctions being undertaken including; revocation of licenses, deregistration of the SACCOs and others being put on a watch list. The affected SACCOs include; Elimu,Nandi Hekima, Miliki Sacco and Sukari ,Ainabkoi, Goodhope, Jitegemee, Kenya Midland, Orient, Uchongaji, Rachuonyo Teachers, Nyamira Teachers, Stake Kenya, Wevarsity, Telepost and Jumuika Sacco Society Limited. 7 Studies have identified the importance of internal control systems in the organizations operations (Chang, 2019; Masanja, 2018; Lakis, 2012) however specifically; there are few studies is any which have assessed the effect of internal accounting control systems, regulatory framework and financial performance of deposit taking SACCOs in Kenya. This study will establish the effect of internal accounting control systems, regulatory framework and financial performance of deposit taking SACCOs in Kenya.

#### *ObjectiveoftheStudy*

i) To determine the effect of Control environment on financial performance of SACCOs in Kenya.

#### *Research Hypothesis*

**$H_{01}$**: Control environment has no significant effect on financial performance of SACCOs in Kenya

## II. LiteratureReview

### 2.1 Theoretical Framework

This study was based on positive accounting theory. The positive accounting theory itself was developed by Watts & Zimmerman (1986) who stated that positive accounting theory is concerned with explaining accounting practice. It is designed to explain and predict which firms will not use a particular accounting method but says nothing about which method a firm should use." The theory is based on "the assumption that all individual actions is driven by self-interest and that individuals will always act in an opportunistic manner to the extent that the actions will increase their wealth", (Santoso & Sebayang, 2017). From this perspective, the positive accounting theory predicts that organizations will seek to put mechanisms in place to limit actions that are driven by self-interest. This is needed to align the interest of managers of the firm (agents) with that of the owners of the firm (the principles). The costs of dealing with problems concerning the agency relationship and installing appropriate mechanisms are referred to as 'monitoring cost'.

Research is either positively or normatively categorised in accounting. Positive study is aimed at predicting and explaining certain events. Those that are linked with such research are positive theories (Deegan and Unerman, 2006). These kinds of ideas are often founded on observations which may be verified and improved experimentally via more observation. Other theories are not based on actual facts, as opposed to positive theories. These are regulatory theories built on the ideas of the researcher. Deegan and Unerman (2006) identify theory of normative research as trying to specify how to carry out a specific practice. This research was based on positive theory by employing empirical data in order to clarify the practices of business sustainability.

Several researches have been based on the positive accounting theories. Collin, Andersson, Cato and Hansson (2009) articulated that the choice of accounting standards follow two theories which rarely meet. These theories are the positive accounting theories and the institutional theories. Modell (2010) also articulated that the accounting research is based on dialogue and can partly be traced to the intellectual roots which revolve around 'mainstream' conceptions of the possibilities (and desirability). Positive accounting theories therefore are better placed to deal with the issue of desirability. The study on determinants of different accounting methods choice by Waweru, Prot Ntui and Mangena (2011) was also based on the positive accounting theories.

There are three fundamental reasons for the shifting of the normative to positive approach, namely (Watts and Zimmerman, 1986): The inability of the normative approach to test theory empirically, because it is based on premise or false assumptions so that the validity cannot be tested empirically. The normative approach focuses more on the prosperity of individual investors than the prosperity of the wider community. The normative approach does not encourage or allow the optimal allocation of economic resources in the capital market. It is given that in an economic system based on market mechanisms, accounting information can be a controlling tool for the community in allocating economic resources efficiently.

Furthermore, (Watts and Zimmerman, 1986) stated that the rationale for analyzing accounting theory in a normative approach was too simple and did not provide a strong theoretical basis. To reduce the gap in the normative approach, Watts and Zimmerman developed a positive approach that was more oriented towards empirical research and justified various accounting techniques or methods that are now used or looking for new models for the development of accounting theory in the future.

Positive accounting theory in principle assumes that the purpose of accounting theory is to explain and predict accounting practices. Positive accounting theory seeks to explain a process, which uses the ability, understanding and knowledge of accounting and the use of accounting policies that are most suitable for dealing with certain conditions in the future. Based on this theory, organizations embrace internal control systems that will cater for the needs of the managers and investors to monitor control environment. This theory explains the existence of control environment on financial performance of deposit taking Saccos.

## 2.2 ConceptualFramework

Conceptual framework is a hypothesized model identifying the model under study and the relationship between the dependent and independent variables (Mugenda & Mugenda, 2003). In this study, the independent variable was accounting information and communication system and the dependent variable was financial performance of Saccos as indicated in figure 1.0.

**Independent variable** **Dependent variable**

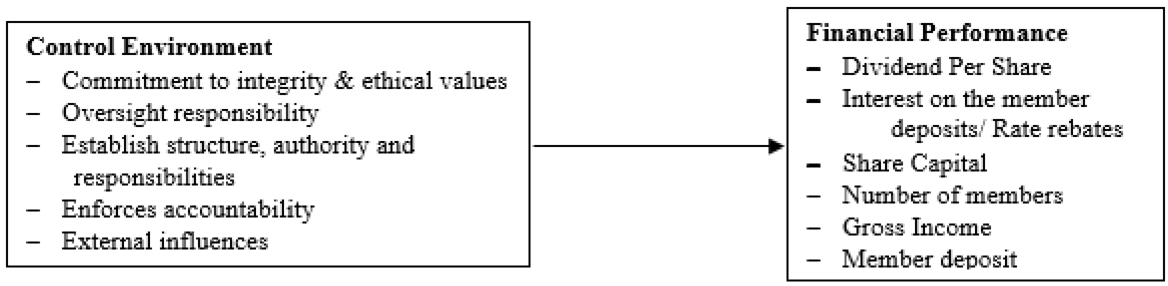


**Figure1.0:ConceptualFramework**

**EmpiricalReview**

Kinyua (2018) concluded that there was significant association between internal control environment and financial performance recommends that internal control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi Securities Exchange. A study by Khamis (2013) found out that there is a significant positive relationship between internal control system (control environment) and financial performance of financial institution. In his research Mawanda (2018) established that there is a positive relationship between control environment and financial performance of institutions of higher learning in Uganda as portray by his case study of Uganda Martyrs University. Eke (2018) sought to determine the effect of internal control on financial performance of hospitality organizations (HOs) in Rivers State. The investigation found that internal controls to a significant extent influence financial performance of HOs and that a positive relationship exists between internal control and financial performance of HOs in Rivers State. The study concluded that the control environment affects total revenue as such influences the financial performance of HOs, its nonexistence or inadequacy may spell doom for an organization.

Mauti and Muturi (2019) assessed the influence of internal controls on financial performance of Kenya tea factories. This researcher used a descriptive research design, because it is based on the fact given from the field as described in the study. It was concluded that segregation of duties need to be done with utmost care to avoid the negative impacts of this variable. On compliance tests, the study established that there was need to have strong compliance tests within the firms in order to enhance the financial performance of the firms as this variable was found to positively affect the financial performance of the tea firms. It was also realized that internal controls and checks positively influence the financial performance significantly. Njiru (2016) sought to determine the effect of internal controls on financial performance of public water companies in Kenya. The study will use a descriptive survey study research design. The finding indicated that regression model show 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.

Kinyua, Gakure, Gekara and Orwa (2018) sought to determine the effect of internal control systems on financial performance of companies quoted in the Nairobi Securities Exchange (NSE). The study adopted survey research design. The population chosen for this study was all 62 companies quoted in NSE. The results and findings concluded that there was significant association between internal control environment and financial performance. Nyakundi, Nyamita and Tinega (2014) investigated the effect of internal control systems on financial performance among Small and Medium scale Enterprises in Kisumu city, Kenya. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scale Enterprises.

Mbaka (2019) investigated the relationship between internal control systems and performance in SACCOs in Nyeri Central Sub-County. The results indicated that internal control environment, risk assessment control and activity control had a positive and statistically significant effect on financial performance of SACCOs. Monitoring had a positive but statistically insignificant effect on financial performance of SACCOs. SACCOs should come up with policy that ensures regular and systematic review of the internal control systems and ensure that issues raised are addressed appropriately. Mwichigi and Atheru (2019) sought to assess how internal controls relates to credit risk using Kenya's commercial banks contained in the list of NSE. From inferential analysis findings, the study concludes that on the overall all the internal control components studied had a significant influence on credit risk. The regression coefficients p-values were less than 0.05 indicating a significant relationship between the dependent and independent variables. However, the findings showed that the efficiency of the checks in the banks are not assured since the association value indicated a positive relationship yet it should be inverse, an indication of ineffective internal control systems.

Agang and Njoka (2020) sought to establish the effects of internal controls on credit risk among the banks listed in Nairobi Securities Exchange. The findings show that there is a positive and significant link between monitoring and credit risk. The study found that assessment of the risk has a significant way on credit risk and those internal controls that are not strong such as poor ethical values have stimulated the involvement to fraud that leads to income loss and misuse of the income received. The study concluded that control activities have a significant effect on credit risk among commercial banks listed in Nairobi Securities Exchange. Atieno and Kiganda (2020) evaluated the effect of internal control systems on financial accountability in national public secondary school in Kenya. However, accountability is still wanting in some public secondary schools. The dimensions of internal control systems were found to have a significant joint effect on financial accountability.

## III. Research Methodology

This study used positivism research philosophy. The philosophical perspective of the study was important in achieving research objectives from which research hypotheses have been derived from. The study adopted a mixed research design involving casual research design and descriptive research design. Casual research design will be employed since the study seek to establish the effect of internal accounting control system and financial performance of deposit taking SACCOs in Kenya. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The research was carried out in Kenya focusing on 175 SASRA licensed DT-SACCO.

The population of this study comprised of 175 deposit taking SACCOs in Kenya from SASRA records (SASRA, 2021) and 875 respondents in the respective SACCOs. The sampling frame consisted of CEOS, finance managers, internal auditors, ICT managers and risk managers.The sample size was determined using the Yamane's formula for calculating sample size (Yamane, 1967) and the sample size to be used was 122 Saccos translating to 610 respondents. A purposive sampling technique was used. The participants were chosen based on the purpose, hence the name CEO, Finance Managers, Risk Managers, ICT Managers and Internal Auditor chosen from 175 Deposit taking SACCOs in Kenya.

The study used from two sources, primary and secondary. The study utilized primary data collected using questionnaire. A five point Likert-type scale was used for all the constructs with 5-Strongly agree, 4-Agree, 3-Undecided, 2-Disagree and 1-Strongly disagree. The study administered 610 questionnaires to respondents of the Deposit Taking Saccos in Kenya out of which 473 responded. The researcher obtained data from 77.5% of the administered questionnaires. The study also utilized secondary study specifically on financial performance variable.This included profitability, dividend per share and interest on the member deposits. Secondary data was collected from audited financial statements of deposit taking Saccos in Kenya covering a period of five years from 2016 to 2020.

A pilot study was conducted on 12 Deposit Taking Saccos representing 10% of the entire sample size from Nairobi County as recommended by Arain, Campbell, Cooper and Lancaster (2010). Piloting entailed reliability and validity of research instrument. This study assessed validity of the study instrument using construct validity and content validity. Expert judgment of content was employed using supervisors and other experts from the school of Business and Economics, Masinde Muliro University of Science and Technology. Construct validity which seeks to measure whether an instrument accurately measures the study phenomena was tested using factor analysis. Financial performance factor loadings were above 0.4 with an average of 0.838 while Control environment factor loading were also above 0.5 with an average of 0.605 hence they achieved convergent validity. According to Ab Hamid, Sami and Sidek (2017) the threshold value of AVE should be greater than 0.5 for the constructs to be justifiable. To measure the reliability, Cronbach Alpha technique was employed.Control environment hand Cronbach Alpha of 0.905 while financial performance had 0.916. Both values were greater than 0.7 hence reliable (Cronbach, 1951).

SPSS software version 26 was used for statistical analysis for quantitative data. Descriptive statistics was mainly used to show the trend of the data. The researcher used descriptive statistics that include measure of central tendency; mean and measure of variability and standard deviation. The study also used frequencies and percentages. The study used inferential statistics analysis such as correlation analysis and regression analysis to test null hypotheses. These statistical tests were at 5% significance level. This data was presented in tables and charts.

## IV. ResultandDiscussion

### 4.2 Descriptive Analysis

The study sought to examine the effect of control environment on financial performance of SACCOs in Kenya. Respondents were required to state their responses in 5 point likert scale where 5-Strongly agree, 4-Agree, 3-Undecided, 2-Disagree and 1-Strongly disagree. Pertinent results are shown in Table 1 and Table 2

**Table 1: Descriptive statistics: Control environment**

| | 5 | 4 | 3 | 2 | 1 | Mean | Stdev |
|---|---|---|---|---|---|---|---|
| There is adequate communication and enforcement of integrity and ethical values in our SACCO | 40.8% (193) | 32.6% (154) | 22.4% (106) | 3.2% (15) | 1.1% (5) | 4.1 | 0.9 |
| There is enough participation in SACCO activities by those in governance | 18.6% (88) | 70.2% (332) | 1.3% (6) | 8.7% (41) | 1.3% (6) | 4.0 | 0.8 |
| SACCO organization structurehas well established lines of reporting and decisionmakinghierarchies | 24.5% (116) | 49.7% (235) | 21.6% (102) | 3% (14) | 1.3% (6) | 3.9 | 0.8 |
| There are formalized policies and procedures for all major operations of the SACCO | 29% (137) | 63.8% (302) | 3.2% (15) | 3% (14) | 1.1% (5) | 4.2 | 0.7 |
| Our SACCO accounting records are limited to employees with designated responsibility for the records | 45.9% (217) | 41.4% (196) | 8.2% (39) | 3.2% (15) | 1.3% (6) | 4.3 | 0.8 |
| Our SACCO conducts periodic stock taking in the presence of internal auditor | 23.5% (111) | 55.6% (263) | 17.1% (81) | 2.3% (11) | 1.5% (7) | 4.0 | 0.8 |
| Our SACCO system access is only allowed to the authorized personnel | 56.9% (269) | 34% (161) | 5.7% (27) | 2.3% (11) | 1.1% (5) | 4.4 | 0.8 |
| Employees in our SACCO are responsible for security of SACCO asset assigned to them | 62.4% (295) | 17.3% (82) | 15.6% (74) | 2.5% (12) | 2.1% (10) | 4.4 | 1.0 |

| Average level of Control Environment | Mean(%Mean) | Std. Dev. | Std. Error of mean | Minimum | Maximum |
|---|---|---|---|---|---|
| | 4.16 (83.2%) | 0.83 | 0.0311 | 1.5714 | 4.71 |

*N=473; 5- strongly agree, 4-Agree, 3-Fairly agree, 2-Disagree and 1-strongly disagree*

**Source: Field Data (2022**

From the table 1 when asked on whether the SACCO has risk identification and analysis policy 25.8% strongly agreed,57,7% agreed, 9.3% moderately agreeing,6.1%disagreed and 1.1% Strongly disagreeing.On the question whether the SACCO evaluates risks before taking actions 37.8% strongly agreed 45.2% agreed thus a high percentage 80% agreed to this statement. 9.7% moderately agreed, 5.9% disagreed and 1.3 % strongly disagreeing to the statement. The third question respondents were asked on whether SACCO takes precautions before opening branches 50.7% strongly agreed 37% agreed thus a high percentage 87.7% agreed to this statement. 5.1% moderately agreed,4.7% disagreed and 2.5 % strongly disagreeing to the statement, and as to if Instructions from clients thoroughly scrutinized before execution:39.1 % strongly agreed, 48.8% agreed with the statement,11.8% moderately agreed, 3.2% disagreed and only 1.1% strongly disagreed.And on the section on whether the organization performs compliance test before adopting new accounting principles, 26.8 strongly agreed and 51,4% agreed with it, 15.4 neither agreed nor disagreed with it, 5.1% disagreed and 1.3 strongly disagreed with the statement. On another statement if SACCO management has risk mitigation mechanism to avoid losses 43.6% strongly agreed with the statement with 32.4 % agreeing to that, 18% neither agreed or disagreed, with 4.9% disagreeing and only 1.1%strongly disagreeing to the statement. When asked whether the SACCO has an operational risk management department 18.8% strongly agreed, 36.2% agreed 22.4% neither agreed nor disagreed, 20.9% disagreed with only 1.7% strongly disagreeing to the statement. And on whether there has been frequent escalation and reporting of risks in SACCOs departments 29.2% strongly agreed, 46.7% agreed, 14.6% neither agreed nor disagreed, 8.5% disagreed and only 1.1% strongly disagreed.

This research support a research conducted by Akimana (2019) who sought to establish the effect of internal controls on financial performance of small and medium enterprises in Nairobi county in Kenya. The findings revealed that there was a positive and significant influence between risk assessment and financial performance.Similarly, Ahmed and Nganga (2019) found a positive and significant effect between risk assessments on financial performance. The study concluded that the risk identification and mitigation play the most significant role in influencing financial performance of the County governments. Hence, risk identification can essentially be said to be the key starting point of any risk management program as the Counties cannot manage what is unknown.Further, Masha (2018) revealed that risk assessment had a significant relationship with the management of funds. The research findings imply that internal control systems are a significant positive predictor of funds management. However, the study contradicts a study by, Kalmetova and Zhussupova (2021) analyzed the relationship between the quality of internal control and performance of commercial banks in the U.S. The study finds a negative impact of identified deficiencies in risk management and information and communication components of internal control system on bank performance.

**Table 2.0: Financial Performance**

| Financial Performance | 5 | 4 | 3 | 2 | 1 | Mean | Stdev |
|---|---|---|---|---|---|---|---|
| Number of Members | 37.6% (178) | 51.4% (243) | 3.4% (16) | 6.3% (30) | 1.3% (6) | 4.2 | 0.9 |
| Gross Income | 38.3% (181) | 52.6% (249) | 5.3% (25) | 3.4% (16) | 0.4% (2) | 4.2 | 0.7 |
| Share Capital | 42.9% (203) | 52.4% (248) | 0.4% (2) | 4.2% (20) | 0% (0) | 4.3 | 0.7 |
| Members Deposit | 40.6% (192) | 49.7% (235) | 5.5% (26) | 3% (14) | 1.3% (6) | 4.3 | 0.8 |
| Interest on Deposit | 26.6% (126) | 52.2% (247) | 19.5% (92) | 1.3% (6) | 0.4% (2) | 4.0 | 0.7 |
| Rate of Revert | 20.9% (99) | 54.1% (256) | 17.8% (84) | 5.1% (24) | 2.1% (10) | 3.9 | 0.9 |
| Rate of Dividend | 26.2% (124) | 43.3% (205) | 22.4% (106) | 6.3% (30) | 1.7% (8) | 3.9 | 0.9 |

| Average level of Control Environment | Mean(%Mean) | Std. Dev. | Std. Error of mean | Minimum | Maximum |
|---|---|---|---|---|---|
| | 4.16 (83.2%) | 0.83 | 0.0311 | 1.5714 | 4.71 |

Results in Table 2.0 indicated that number of members had a mean of 4.2 and standard deviation of 0.9. On the other hand, gross income had a mean of 4.2 and standard deviation of 0.7. The results also revealed that share capital had a mean of 4.3 and standard deviation of 0.7. Similarly, member's deposit had a mean of 4.3 and 0.8. Interest on deposit had a mean of 4.0 and standard deviation of 0.7. The results also revealed that rate of revert had a mean of 3.9 and standard deviation of 0.9. Similarly, rate of dividend had a mean of 3.9 and standard deviation 0.9.

### Correlation Analysis

This sub section presents the results, correlation analysis where the relationships between the dependent variable financial performance and the independent variable represented by accounting information system was presented. The correlation coefficient (r) results are presented as shown in Table 3 using Pearson correlation analysis, which computes the direction (Positive/negative) and the strength (Ranges from -1 to +1) of the relationship between two continues or ratio/scale variables.

**Table 3: Correlation Matrix**

| | | Control environment | Financial Performance |
|---|---|---|---|
| Control environment | Pearson Correlation | 1 | |
| | Sig. (2-tailed) | | |
| | N | 473 | |
| Financial Performance | Pearson Correlation | .764** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 473 | 473 |

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

**Source: Field Data (2022)**

From the table 3 above showed that Control environment was positively correlated to Financial performance (r=0.764, p <0.01) and it was significant at 99% confidence level thus increase in Control environment makes financial performance to increase. Finding by other researchers agree with this finding like one done by Akimana (2019) in establishing the effect of internal controls on financial performance of small and medium enterprises in Nairobi County in Kenya. The findings revealed that there was a positive and significant influence between Control environment and financial performance. The findings were also supported by Hanoon, Khalid, Rapani, Aljajawy and Al-Waeli (2021) who found out that there is positive significant relationship Control environment and financial performance of the Iraqi banking sector.However, the findings contradicted Sigilai (2017) who focused on the assessment of internal control systems effects on revenue collection at Nakuru Level Five Hospital. The study revealed that Control environment has positive and insignificant effect on revenue collection at Nakuru Level Five Hospital. Further, Serem (2016) who examined the relationship between internal management controls and efficiency of service delivery of commercial banks in Kenya.The study revealed that Control environment has positive and insignificant effect on efficiency of service delivery of commercial banks in Kenya.

***Linear Regression***

Regression analysis was done to examine the effect of Control environment on financial performance of SACCOs in Kenya. Regression coefficient (B), analysis of variance (ANOVA) and t-test were used to test the hypothesis I at 0.05 % significance level, with 95% confidence interval. The first study tested the following null hypothesis:

**$H_0$1**: Control environment have no significant effect on financial performance of SACCOs in Kenya.
The results are as shown in Table 4.

**Table 4: Regression Results of Control environment on Financial Performance**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .764[a] | .584 | .583 | .40354 |

a. Predictors: (Constant), Control environment
b. Dependent Variable: Financial Performance

**ANOVA[a]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 107.660 | 1 | 107.660 | 661.104 | .000[b] |
| | Residual | 76.701 | 471 | .163 | | |
| | Total | 184.361 | 472 | | | |

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Control environment

**Coefficients[a]**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 1.471 | .104 | | 14.104 | .000 |
| | Control environment | .656 | .026 | .764 | 25.712 | .000 |

a. Dependent Variable: Financial Performance

**Source: Field Data (2022)**

From the table 4 above the value of R square was 0.584 this showed that Control environment explains 58.4% of variance in financial performance of Deposit Taking SACCOs in Kenya. From the ANOVA table significance of the model had a value F(1,471)= 661.104,p < 0.01 this shows that was significant at 99% confidence level hence the model is feasible.Therefore, as per the conceptual framework that was used in this study, Control environment constructs; new product lines, new information systems, rapid growth, restructuring of the Saccos operations and adoption of new accounting principles have significant influence on financial performance of Saccos in Kenya. The research findings imply that internal control systems are a significant positive predictor of funds management. Mwakimasinde, Odhiambo and Byaruhanga (2014) investigated the effect of internal control systems on the financial performance of sugarcane outgrower companies in Kenya and found a positive significant effect of Control environment on the financial performance. Further, Bett and Memba (2017) confirmed that Control environment have a significant influence on the financial performance of Menengai Company.

However, the results have not been supported by other studies. Lagat (2018) who examined the effect of internal control systems on financial performance of the government owned sugar firms in Kenya. The study revealed that Control environment has positive and insignificant effect on financial performance of the government owned sugar firms in Kenya. Ambuso (2021) revealed that Control environment has positive and insignificant effect on financial performance of private hospitals in Western Region, Kenya. Kalmetova and Zhussupova (2021) found a negative impact of identified deficiencies in risk management and information and communication components of internal control system on bank performance.

The regression equation for Control environment becomes;

Y (Financial Performance) = 1.471+0.656X(Control Environment)

From the regression equation it means that when Control environment increase by 0.584% financial performance would increase by 1% in same direction thus the relationship was positive and significant. Both regression and correlation result show that Control environment has a significant positive relationship with financial performance. This postulated that deposit taking SACCOs which has risk identification and analysis policy, evaluates risks before taking actions, takes precautions before opening branches, performs compliance test before adopting new accounting principles and scrutinized instruction from client thoroughly before execution are likely to experience enhanced financial performance.

These findings corroborate well with a study conducted by Kamau (2019) who sought to establish the effect of internal controls on financial performance of small and medium enterprises in Nairobi County in Kenya. The findings revealed that there was a positive and significant influence between Control environment and financial performance. It is also supported by Bett and Memba (2017) who found out that Control environment have a significant influence on the financial performance of Menengai Company.However, the study findings are not supported by Matata (2015) who examined the effect of internal controls on the performance of water companies in Kenya. The study revealed that Control environment has negative and insignificant effect on performance of water companies in Kenya.Further, Kemboi (2019) who examined the effect of internal controls on operational efficiency of Saccos registered by Sacco Society Regulatory Authority in Nairobi County. The study revealed that Control environment has positive and insignificant effect on operational efficiency of Saccos registered by Sacco Society Regulatory Authority in Nairobi County.

## V. Conclusion and Recommendation

The study concluded that accounting information and communication has no significant influence on financial performance of Deposit Taking SACCOs in Kenya. The level of information accessibility to the employees as well as the effectiveness of the SACCOs' communication system contributes greatly to the ability of the banks to grow financially. The study gives evidence that the SACCOs in Kenya' confidential information is a key asset to the SACCOs as access to unauthorized personnel may ruin the Sacco and contribute to the threats of losses. To enhance financial performance, SACCOs ensure information is disclosed to both internal and external interested parties and conducts periodic review of effectiveness of their accounting information system. The study also established not all SACCOs have an accounting information System for collection and follow up for due accounts and SACCO Reporting system does not adequately spells out responsibilities of each department.

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