**EFFECTS OF INTERNAL CONTROL ON THE FINANCIAL PERFORMANCE OF SACCOS IN TANZANIA: A STUDY OF SELECTED SACCOS IN DAR ES SALAAM REGION**

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**CERTIFICATION**

The undersigned certifies that have read and hereby recommends for acceptance by the Open University a dissertation entitled “**Effects of Internal Control on Financial Performance of Saccos: A Survey of some Selected Saccos in Dar es Salaam Tanzania”*,*** in partial fulfillment of the requirements for the degree of Master of Business Administration department of Accounting and Finance of the Open University of Tanzania.

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# 

# ABSTRACT

The study sought to examine the effects of internal controls on the financial performance of Saccos in Selected Saccos in Dar es salaam Tanzania. This study evaluated the effect of the control on the financial performance of Saccos in Dar es salaam. The objectives of the study were to establish the effect of communication, the effect of risk assessment, the effect of control functions, and the effect of monitoring on the performance of Saccos in Dar es salaam. The theories underpinning the study were agency theory, attribution theory and contingency theory. Questionnaires with open and closed-ended questions were administered to collect primary data among credit managers, finance managers and an auditor in 24 in Dar es salaam. The research philosophy of the study was positivism. The study adopted a cross-sectional mixed design method. The study targeted a sample size n=96 respondents. The data was analyzed both quantitatively and qualitatively .The output was presented descriptively by use of mean, standard deviation, frequencies and percentages. Inferential statistics such as correlation coefficient β, coefficients of determination R and P-values were used from a multiple regression equation. ANOVA was utilized to verify the goodness of fit of the model. The results indicated that all the four independent variables; communication, risk assessment, control functions and monitoring had a significant relationship with the dependent variable. Further, the results revealed that only communication and risk assessment had a significant relationship with the financial performance of Saccos. The study concluded that all the four independent variables needed to be emphasized since they influenced the financial performance of Saccos. The study recommended that Saccos should adopt internal control systems that best fit their kind of operations.

**Key words**: *Saccos, Internal control, Saccos performance, Tanzania*

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# LIST OF ABBREVIATIONS AND ACRONYMS

CBK Central Bank of Kenya

COSO Committee of Sponsoring Organization

FOSA Front Office Service Activities

ICS Internal Control Systems

ROA Return on Assets

ROE Return on Equity

ROS Return on Sales

SACCO Savings and Credit Cooperative Societies

SASRA Sacco Societies Regulatory Authority

WOCCU World Council of Credit Unions

**CHAPTER ONE**

**INTRODUCTION**

## Background of the Study

## In the modern business environment, all companies are having difficulty devising strategies that allow them to surpass their rivals. Because they are not an exception, most swindlers are implementing internal control systems. Their primary goal is to gain control of the Saccos' operations so they can improve their financial results. Kiaritha (2015) and the International Cooperative Alliance (2005) define a cooperative as an autonomous group of people who get together voluntarily to pursue common economic objectives. According to the International Cooperative Alliance (2005), the main tenets of cooperatives were: free and clear association; elected associate control; participant financial involvement; sovereignty and freedom; availability of education, training, and information; cooperation among cooperatives; and public awareness.

## 1.1.1 Global Perspective of SACCOs

All nations in the globe have welcomed cooperatives. According to historical accounts, the Chinese originated their concept of cooperatives from the Babylonians, who were collective farmers who developed savings and lending programs for their fellow farmers (International Monetary Fund [IMF], 2007), cited in (Kiaritha, 2015).

The cooperative movement originated in North America with farmers working together to plow the ground, build plantations, and harvest the crops. The earliest cooperative movement in the United States started in 1752, about 25 years before the country's declaration of independence was drafted. Cooperatives have expanded significantly in recent years. According to estimates from the International Monetary Fund (2007), in 2004 the market share of the banking sector was expected to be 14% by the total assets of cooperatives. Because of their durability during financial crises, cooperative movements were deemed to be more equitable than commercial banks (Cook, Chaddad & Iliopoulos, 2004).This was explained by the fact that, in comparison to commercial banks, the investments made by cooperative banks tended to be less predictive, meaning that their returns were more stable (IMF, 2007). In industrialized nations, cooperatives had a reliable source of capital and were not greatly impacted by changes in financial sector prices or monetary policy. Further, the interest rates by the cooperatives were more favorable compared to commercial banks in the developed countries (World Council of Credit Unions [WOCCU], 2009).

## Internal Controls in Sacco’s

Firm' internal control systems are key for saccos since the existence of a poor control system is the underlining source of poor performance in saccos particularly because fraud goes undetected (Etuk, 2011). From an administration perspective, need arises to guarantee that internal control frameworks are set up considering the end goal to decrease the event of misrepresentation. Inside control is an ever-changing indispensable process that adjusted ceaselessly to progressions in the banking industry (Etuk, 2011). Within every financial institution, it is important to provide products and services at an impartial price that guarantee cost-effectiveness in the production process. Thus, the degree to which internal control allows stability in any organization is seen its increase in opularity (Rezaee, 2002). This is because these control systems are the foundations of adept accounting and also grows towards the set goals. Internal control is the guideline for any organization to oversee the attainment of the set goals. The goals range from attaining efficiency in operations, accuracy in financial reporting and compliance with relevant laws and regulations (Shabri, Saad & Bakar, 2016). Where these variables lacked, failure is almost inevitable. Indeed, the tread way commission findings in the America in 1987 found fraudulent company financial reporting were rife where internal controls lacked or were weak (Shabri et al., 2016).

As such, constant and regular update of internal policies by organizations ensured that their systems of internal control were enhanced. The control mechanism employed by organizations was key to fostering the efficiency and returns of an organization (Kantzos & Chondraki, 2006). According to Fadzil, Haron, and Jantan (2005), a viable control framework guaranteed the realization of organizational performance. This was guaranteed through a thorough audit of the financial information; defending the firm resources and assets; operations that were in consistency with regulatory provisions rules; and guaranteeing viability in the management activities. One of the major responsibilities of top management in any public company in the preparation of reliable financial information (Mutange & Datche, 2016).

Management of a company’s business banks on the availability of accurate and precise data. According to Wanjohi (2013), an assessment and analysis of performance were vital to regulating and specifically addresses the subsequent. That is, what happened, reasons for the occurrence, and what to do concerning it. Financial performance responded with regards to the management systems. This was because these systems provided information on the track of the set objectives by showing the position of the organization, affirming the priorities and driving growth. Thus, it was rendered true that internal controls were the measures whose end was monetary performance (Ibrahim, Diibuzie, & Abubakari, 2017).

However, due to the extent to which the data collection strained the resources of small firms and inadequacy of the available financial information, subjective measures were difficult to adopt (Siminyu, Clive & Musiega, 2016). Whittington and Pany (2004) stated that increased profit, revenue growth, and the return on capital underlined an objective measure of performance. Further, the incorporated market value added (MVA) measure, gauged the firm worth dependent on the investors holding against the all-out ventures (John, 2011). This rating depended on traditional highlights of money related execution. This incorporated net returns, benefit development, net edge, development in deals, and profit for value. Dwivedi (2002) incorporated extra estimates, for example, the drawn-out estimation of the speculation, money related wellbeing, and resource use.

Further, John (2011) referred to return on assets, on equity and sales, ROA, ROE, and ROS respectively, as the standard measures. These measures were obtained by getting the ratio of net income to assets, common equity and net sales respectively. Mary and Byaruhanga (2014) noted that any organization had its internal control system as consisting of policies and procedures that provided a framework within which the firm’s objectives and goals were set to be achieved. These included reliable reporting of the financial status, compliance with regulatory provisions, and proficiency in operations (Kambura, 2018). The system control had a controlled environment as a key factor. These factors comprised aspects such as the values; the structure of the organization; and the integrity of all the personnel in the process of formulation, setting up and administration of controls as well as the directors and audit members (Bett, 2017). These factors depended highly on the degree to which the management was effective.

It showed the importance of such controls in Sacco banks' performance through attitudes and policies adopted by management. Besides, the control environment outlined the culture of an organization thereby setting a supportive attitude for internal control (Kiyieka & Muturi, 2018). The management's failure to institute control culture and laxity in its implementation in the banking institutions could be blamed for the major losses in Sacco banks. The directors and senior management were also partly to blame. These large cases were a reflection of the lacking incentives that allowed management to effectively carry out their supervisory roles and maintain control within the banking institutions (Da Silva, Leite, Guse, & Gollo, 2017).

The management, which included the board, ought to show by example the significance of internal control. This involved the discipline and ethics that management employed while carrying out the business both within and outside the organization (Yogo, Marangu, Kiongera, & Okaka, 2016). How the board of directors and senior management carried themselves both verbally and in actions had a direct effect on the integrity and values of the bank's control culture (Kamande, 2017). A study by Ibrahim, Diibuzie and Abubakari, (2017) found that control activities, internal audits, and monitoring had a positive relationship with monetary performance.

## Statement of the problem

The establishment of the Sacco’s Society Regulatory Authority (SASRA), was in part as a response to growing challenges affecting Sacco. Ideally, Saccos were established to improve the living standards of citizens both economically and socially through the provision of services at a lower cost as compared to other lending and savings facilities. However, there was low financial performance of Saccos in Dar es salaam due to limited returns on investments which continued to be a challenge to Sacco in Tanzania (Chahayo, 2013).

In addition, inadequate internal management capacity and operational controls were a major problem in Tanzania's Sacco. This was heightened by poor structures of control, technological changes, fraud, and misappropriation of resources. When finances are low, citizens are not able to acquire various Sacco functions such as loans to establish their businesses. This in turn greatly affects the intended intention of Tanzania to achieve vision 2030, since there will be a lot of citizens without a reliable source of income due to unemployment. There was lack of controls thus making organizations fail to achieve their objectives as corruption had become rife and increased collusion between management and external auditors. Technological advances brought about challenges in control systems and prompting new ways of controlling organizations.

The Tanzania financial sector stability report by the ministry of finance and the ministry of co-operative development and marketing (2018) stated some of these challenges included poor governance structures; competition; low adoption of information and computer technologies; inadequate legislation to accommodate diversified products; powerless interior control frameworks; deficient performance gauges; absence of revelation necessity measures; poor human resources practices leading to poor quality of staff; and high staff turnover. Despite the importance of the internal control structure, an actual measure of its performance within the organization was almost non-existent and the topic remained relatively unexplored by researchers (Kinney, 2020). This was also true in Tanzania as there was little evidence linking internal controls to the profitability levels of the Saccos.

Keitan (2020) studied the implication of internal audit control function on risk assessment by the external auditor while Kibet (2018) examined how internal audit enhanced corporate governance in state-owned enterprises. Osama (2013) studied internal control systems' effect on financial performance on Saccos in Kilimanjaro. Odemba (2018) studied the effect of capital adequacy on the financial performance of deposit taking savings and credit societies in Arusha. However, no study focused on the effect of internal controls on the financial performance of the Saccos, especially in Dar es salaam. This was therefore the gap this study sought to fill through examining how internal controls and financial performance of licensed Sacco’s in Dar es salaam related.

## General objective

This study sought to examine the effect of internal control on the financial performance of Saccos in Dar es salaam Tanzania.

## Specific objectives

The specific objectives included:

1. To determine the effect of communication on the financial performance of Saccos in Tanzania.
2. To determine the effect of risk assessment on the financial performance of Saccos in Tanzania.
3. examine the effect of control functions on the financial performance of Saccos in in Tanzania.
4. To examine the effect of monitoring on the financial performance of Saccos in in Tanzania.

## Research hypothesis

H1: Communication does not significantly affect the financial performance of Saccos in in Tanzania.

H2: Risk assessment does not significantly affect the financial performance of Saccos in in Tanzania.

H3: Control functions does not significantly affect the financial performance of Saccos in in Tanzania.

H4: Monitoring does not significantly affect the financial performance of Saccos in in Tanzania.

## Significance of the study

The study would benefit the Saccos audit committee by providing assurances of the effective functioning of the processes. It would also help in evaluating the risks which the organization was exposed to and that the structures of control adeptly controlling the risk levels. The study would also benefits Sacco’s administration in bookkeeping to the board, the development, operation, and monitoring of the control systems. Third, the results of the study would sensitize the employees on the need to adopt control structures to improve financial performance. This study added to the available volume of knowledge. Research institutions and scholars would benefit from evaluating the recommendations and findings of the study. The study findings were also guiding the government by helping them have quality internal and external reporting. Through the study, records were well maintained by following the recommended guidelines promptly and being able to sort pertinent and dependable information from in the interior and outside the organization.

## Scope of the Study

The study mainly reviewed the internal control systems of Saccos and the effects they had on the financial performance of the Saccos. It focused only on the licensed Saccos that are regulated by Tanzania Cooperative Development Commission (TCDC). Further, the study focused on Saccos operating in Tanzania only. It focused on the Sacco managers, auditors, and the operation managers from the respective Saccos. This was because they probably gave more appropriate information on the internal control systems as opposed to those at lower levels in the hierarchy. The study focused on the four key variables of the study which included; communication, risk assessment, control functions and monitoring influence on financial performance of Saccos in Tanzania.

**1.8 Organization of the Study**

Chapter one of this study introduces the background of the study, statement of problem, the objectives of the study, research questions, significance and the scope of the study. Chapter two presents a review of literature on relevant research linked to the problem in this study. The study looked at conceptual definitions, theoretical perspectives, empirical literature review, research gap, conceptual framework.

Chapter three of this study presents the methodology used in this study. It includes the research design, area of the study, population of the study, sample size and sampling design, methods of data collection, data collection tools, reliability and validity of data and data analysis. Chapter four presents research findings and discussion. Chapter five is all about conclusion, recommendations and areas of further studies.

# CHAPTER TWO

# LITERATURE REVIEW

## Overview

This chapter reviewed how financial performance related to the internal control systems. Factors of internal control studied were communication, risk assessment, control functions, and monitoring. The review also examined the various structures of internal controls adopted by different organizations, the theories behind the control systems, and studies by previous researchers regarding the systems of internal control.

## 2.2 Definition of Key Terms

## 2.2.1 Financial Performance

It referred to the degree of how an organization generated revenue through the use of its assets. Generally, this was also used as a metric to measure the financial standing of a firm and also compare the performance of different organizations in business (Bett, 2017). This was measured by the rate return on assets.

**2.2.2 Financial Performance in SACCOs**

According to (Magara, 2013), Sacco performance was measured through profitability and return on assets. A review on the performance of Saccos for a period of 5 years, that was, from 2006 to 2010 showed that deposits for deposit-taking and non-deposit taking Saccos grew with impressive rates. The deposits grew by an average of 25% for the last five years, whereas non-deposit taking Saccos realized an average growth of 5.6% in the last five years. The deposit-taking category Saccos’ loans grew by an average of 16%, while loans for non-deposit taking Saccos grew by 4% (Nkuru, 2015).

## 2.2.3 Internal Controls

They were measures established by firms to guarantee that their purposes, goals, and the overall mission were achieved (Etuk, 2011). Internal control involved measuring and management of risk, controlling the setting and actions, and monitoring.

## 2.2.4 Monitoring

The overall nature of the process of control within a given time frame was assessed through monitoring. The control processes ought to be constantly monitored to ensure the effective and efficient performance of the organization (Chahayo et al., 2013).

## 2.2.5 Risk Assessment

This was the determination of all the elements that deterred the firm from reaching its targets and purposes. It contained the identification and analysis of risk factors that impeded the mission and goals of an organization (Etuk, 2011).

## 2.2.6 Control Activities

These were mechanisms and frameworks that guaranteed that the management policies were correctly implemented and carried out (Onyang’o, 2018).

## 2.2.7 SACCOs

Stood for Savings and Credit Co-operatives Societies. They were an independent group of people who come together by free will to meet similar economic needs through joint ownership of a business registered under the department of cooperatives (SASRA, 2018).

## Theoretical Review

The study focused on three theories: agency theory, the attribution theory and the contingency theory.

## 2.3.1 The Agency Theory

According to this theory, there existed in a firm, the principals who owned the resource and the agents who managed the resource (Jensen & Meckling, 1976). The relationship between the two existed alongside information asymmetry since the agent had more information than the principal. This reduced the ability of the principals to determine whether the agents protected their interests (Jensen & Meckling, 1976).

To guarantee if both the welfares of the principal and their representatives were in tandem, the theory postulated that establishing a contractual agreement ensured that the welfares of the principals were encountered. To strengthen the connection that existed amongst the agent and the principal, the systems like internal audit system and control setting were in place and experts were considered (Jussi & Petri, 2004). The theory went on to assert that a selection problem arose where the information was inadequate regarding the relationship, welfares and ability of the agent.

This resulted in adverse selection and moral hazard which impacted the agent’s performance either through a lack of understanding of what was to be done or failure by the agent to do what he was appointed to do. Therefore, the assumptions that underlied the agency theory was that the principal and the agent acted rationally and that they both maximized their wealth (Jensen & Meckling, 1976). The theory was relevant to this study since the adoption of internal controls sought to ensure that the agency problem did not exist in the firm and addressed the problem of information asymmetry.

**2.3.2 Attribution Theory**

Attribution theory was a communal mindset theory that reconnoitered an understanding of an individual's interpretation of proceedings and actions. It also sought to attribute causes and intentions to their behaviors and actions. This theory was used to explain why people do what they do to use the information available around them (Schroth & Shah, 2000). Reffett (2007) found that in evaluation it was believed two individuals would have behaved contrarily in a similar condition, then the accountability for a result was attributed to the individuals.

Reffett’s (2007) further extended auditor’s liability for perceiving scam in the study whose outcome showed that if an auditor failed to unearth an anomaly yet signs pointed to the existence of such an anomaly, then the auditor was likely to be held liable. The study concluded that auditors suffered liability when an audit failed. This was true when fraud was recognized and measures to probe the recognized fraud peril performed. The theory thus supported the effectiveness of firms' internal control to be reported by auditors.

Auditors, therefore, needed to have an in-depth understanding of the existing controls, their design, execution, and test their operating efficacy. This was esteemed essential for the reviewers' dependence and lessens other review techniques for the normal execution. The attribution hypothesis recommended in case of extortion; pertinent gatherings were considered responsible. According to Reffett (2007), auditors were regarded as “public watchdogs”. They were held accountable if it was established that audit services rendered were far from standard. The attribution theory, therefore, placed the load of fraud reporting to the pertinent people within the organizations. As the internal control structure continued to change thanks to the evolving technology, there was always a need for their management. Therefore, those tasked with this responsibility, whether managers and the board of directors, ought to guarantee compliance with pertinent governing frameworks. In this study, this theory pursued to place auditors on the front in reporting cases of fraud.

**2.4 Empirical Literature Review**

**2.4.1 Communication and Financial Performance**

A study carried out by Bett (2017) found that internal controls provided an avenue for recording and informing the roles and responsibilities of all employees in an organization. He further added that cooperatives employed information systems to provide information through the right directions for adherence with operational and financial requirements. This proved that information and communications systems were a very vital part of the internal control system since information system was made up of people, hardware's software, procedures and data (Inusah & Abdulai, 2015; Mwakimasinde, Odhiambo & Byaruhanga, 2014). Kamau (2014) articulated that for purposes of gathering information, the management held people in different department such as credit, accountable for the processes as well as communicate the expectations and the essence of the internal control system. Further, Kamau (2014) wrote that management ensured that strategies were being implemented and systematic reporting from every individual department. With the ownership of the reporting system by the employees, the organization evaluated whether goals were being implemented effectively (Kamau, 2014).

The study by Akintaro and Shonubi (2016) also stressed the role of good communication in organizational success. The savings and credit cooperatives adopted clear communications and relayed information that was understood as the organization's culture. This caused the work environment to facilitate efficient top-down and bottom-up communication. Achieng Otieno, Waiganjo and Njeru (2015) similarly found that communication improved operational efficiency through interactions and sharing of information. Communication was very important since it created team royalty and they referred to it as the lifeblood flow of the organization.

According to Akintaro and Shonubi (2016), Saccos should record reliable information for the employees to carry out their roles. Adding to that, Frazer in 2012 as quoted by Akintaro and Shonubi (2016) wrote that information systems enabled controls and management of activities as well as monitor implementation of the operational processes. Hanim, Haron, and Muhamad (2005) as quoted by Shabri et al. (2016) noted that relying on the correct information in time improved audit work of analyzing evaluation and reporting for the achievement of expected organizational goals.

Further information and communication facilitated decision making in customer service, marketing activities, and other business operations (Weber, 2009). According to Kiyieka and Muturi (2018), internal control system had developed over the years since the 1940s. With a high level of business activity, new methods of information technology and systems had achieved better results for instance in minimizing errors and curbing fraudulent activities in cooperative organizations.

A study carried out by Ireri and Idowu (2017) postulated that the major problem Saccos were faced with was several weaknesses due to lack of the required communication and information systems which made it very tough to compete with commercial banks. However, due to inadequate capital base, most Saccos did not embrace fully the use of information and communication systems which presented them with challenges of management and control.

According to Ndegwa (2011), information and communication technology (ICTs) was not sufficiently utilized by Saccos and the ministry of cooperatives. Further, Mary and Byaruhanga (2014) defined IT as the technology that included computing information systems which included computers, software's and high-speed data as well as sound and video. Information systems not only encouraged accurate data capturing but also enabled grouping of transactions for reporting of the months and dates when transactions occurred as well as produce statements of accounts. In addition, Williams et al. (1999) as quoted in by Mary and Byaruhanga (2014) emphasized the need for information security through systems that recorded movements and tracked servers to ensure input and output control. Further, their study added that at the state of information processing, transactions were monitored and control checks were done to facilitate correctness and thoroughness. This included counter-checking mathematical errors and physical sorting out of reports among others. Controls through the use of information system therefore enhanced performance because losses that resulted from inaccuracies could be reduced. Controls limited access to information that could lead to tampering with financial data without leaving any evidence for audit. However, computers and systems faced challenges due to virus and malware infections and thefts by hackers and crackers.According to Bett (2017), communication ensured relying on correct and timely financial information. Communication required some control in all dimensions to ensure the beneficiaries of the same information. This including the stakeholders’ access to accurate and reliable information which highlighted the status of the financial matters and status (Pandey 2002). Muthusi (2017) noted that information ought to be communicated in every department of the organization to ensure understanding of responsibilities as well as execution. Muthusi (2017) further added that lack of knowledge and clarification of the expectations of the employees was the reason for losses in an organization.

Also, incomplete inaccurate and false documentation was the cause of inefficiencies in Saccos. The study concluded that timely, reliable accessible and relevant information in a consistent pattern was very essential for decision making (Theofanis, George & Nikolaos, 2011).

## 2.4.2 Risk assessment and Financial Performance

Karagiorgos et al.(2009) explained risk assessment as a tool of noting deviant behaviors that would be falsified into the financial statements. It required that risk was to be observed, documented, estimated and relevant actions taken to minimize them (Inusah et al., 2015). Further, Magara (2013) noted that risk was estimated with or without procedures form the different departments in an organization. Examples included credit risk, fraud risk, customer risk, and operational risk assessment. Kibui and Moronge (2014) added further that credit giving and deposit-taking was the major income source of many cooperative though it involved a lot of risks. The risks were because the borrowers failed to repay their debts in time hence putting the organization and the investors' funds to high risk. Consequently, credit risk was one of the major challenges that faced cooperative organizations (Boateng, 2011). Interestingly, the global financial recession had significantly affected Kenyan banks and cooperatives and this spilled over to the individuals and organizations making it hard for people to repay their loans (Huizinga & Demirgue, 2010). Ntongo (2012) explained that every undertaking involved risk and there was need to reduce it as much as possible through establishing a sound internal control system that enabled routine monitoring and evaluation of risks that likely to affected an organization. Further to assess risks, it required tools of measurement on operations, decision making, clear communication avenues, and internal audit personnel.

Risk assessment involved determining and evaluating factors that hindered the organization from reaching the set goals. This allowed the active analysis of all the pertinent risks confronting the firm (Karagiorgos *et al*., 2009). The administration held the obligation of ensuring that the firm faced a satisfactory degree of risk. The administration ought to structure inner control frameworks that guaranteed productivity and adequacy. The inner control framework further permitted solid money related detailing which agreed to the administrative prerequisites. This was ensured through ordinary audit and assessment of the control frameworks.

Many Saccos, due to negligence and failure to acknowledge risk associated with new products and activities, had suffered major losses. This was also caused by the failure to adapt their risk assessments in response to significant changes in their operational status or circumstances. The analysis showed that control systems that worked better with traditional systems and simple products were simply not matched for progressively modern or complex items (Karagiorgos *et al.,* 2009). The extent to which the banking sector was exposed to uncertainties meant that it was associated with high-risk levels. The practice of risk assessment in Saccos , assured the fidelity of the operations as well as the adopted procedures. The environment in which the Saccos operated involved navigating through a large number of risks that threatened their success.

These risks were either being credit, liquidity, foreign exchange, market and interest rate. Such a huge exposure to different types of risks meant that elaborate risk management was needed. Once the risks were identified, then their management was inevitable. There existed a direct relationship between risk and rate of return such that when the returns increased, the risk also increases. When the risks were effectively managed, there was a balance between the return and risk thus yielding a desirable position (Fatemi & Fooladi, 2006). Risk assessment was critical within the financial sector compared to other sectors. This was largely because financial institutions sought to maximize revenues and returns to shareholders (Al Tamimi & Al-Mazrooei, 2007). Risk assessment practices sought to avoid the possibility of failure which was costly. Although it used a lot of resources, the cost of poor risk management could in some cases lead to the failure of Saccos and the banking system altogether.

According to Shabri *et al.* (2016), the stakeholders (board of directors) ought to detect the likelihood of risk and departments as well as involve the workers in risk ascertainment, then come up with a clear action plan on mitigation. In addition, Yogo et al., (2016) identifies that after knowing the risks, the management presents the reports of financial statements in a way that gives a true and fair position of the business according to accounting principles. Transactions carried out daily acts as source documents for risk assessment. Moreover, risks determined the level of return on investment where risk- averse organizations failed to invest in some assets. By use of external auditors, the organization easily identified the risk that played a threat to their objectives by interacting with the employees (Mary & Byaruhanga, 2014). The findings of Gisemba (2010) as quoted in (Kariuki, 2017) on an examination on the effect of credit chance administration on financial performance among the 38 Saccos tested, noticed the significance of paying off awful obligations and money related misfortunes to improve execution.

The study found an optimistic connection between credit risk management and organizational performance. He emphasized the need to ascertain, estimate monitor, manage, communicate and minimize credit risks to enable profitability and sustainability of Saccos. If not controlled, credit risk resulted to collapse of business due to liquidation problems (Kithinji, 2010).

## Control Functions and Financial Performance

These were mechanisms and procedures that allowed the correct implementation of management policies (Rezaee, Elam & Sharbatoghlie, 2001). Relevant expression of policies and procedural frameworks underlined the performance of control activities. It also provided a basis for auditors’ to objectively examine the level of effectiveness a control design had on the management of funds (Aikins, 2011). The actions sought to address risks and attain the set goals. Rezaee et al. (2001) asserted that control activities were present all through the firm. They encompassed activities such as reviews of operating performance, necessary approvals, reconciliations, the security of assets, and separation of duties. The majority were functions of internal audit arm. Saccos’ management at the departmental level was tasked with reviewing performance and providing a periodic report on the same.

Reviews by top management often generated questions regarding performance and this constituted a control activity. These activities became effective when undertaken as a routine activity by all personnel, management and employees rather than being an additional activity (Rezaee et al., 2001). This was because when seen as an additional activity, their importance was downplayed and failed to be performed in the event an individual felt they had a lot at hand. Also, incorporating controls in the daily activities allowed prompt adjustments to changing conditions and also saved on cost. Top management enforced control duties as part of the daily functions of each individual to foster a control culture within the bank.

Establishing frameworks for the bank activities and different departments of the Sacco bank alone was not enough for management as they saw to it that policy framework was complied with and that these frameworks remained adequate. This role fell under the internal audit arm (Kamande, 2017). According to the study by Kiyieka and Muturi (2018), there was a solid connection between inner control exercises and money related execution in that organizations with great control frameworks surveyed and moderated the possible hazard accordingly improving their presentation. Further, Shabri et al., (2016) noted that control activities ensured that strategies and processes were implemented to reduce the risk and achieve organizations' growth.

According to Ratcliffe and Landes (2009), control activities included authorization, adequate documents, processing of information, physical controls, duty segregation, information processing, reconciliation, verification, review of operation performance and supervision. All these activities were geared towards minimizing risk to enable achievements of organizations' goals (Saidu & Zabedah, 2013). The fourth component of internal control was controlled activities, the procedures and policies that ensured how management directives had performed that helped ensure that appropriate corrective and preventive measures were engaged (Frazer, 2012).

According to Hussaini and Muhammed (2018), control activities were either automated or manual but both had the objective of minimizing the risk that delayed the organizational success. The most essential control activity according to audit was performance review processing of information and diversifying of duties. Verifications were done before making payments, reconciliation, review operations and supervision. Among the benefits of control was timely and effective internal and external communication; the easy achievement of organization objectives; communication of objectives; enhanced decision making; and the use of information systems to reduce manual inaccurate reports. Among the control, activities were addressing segregation of duties; build up important innovation procurement; advancement and support process control exercises; set up pertinent innovation framework control exercises; set up significant security the executives' procedure control exercises; decide reliance between the utilization of innovation general controls; and innovation in business forms.

According to Hussaini and Muhammed (2018), control activities were aligned with organizational policies in which the study proposed a control model that encouraged re- assessment of policies and procedures; take corrective action; perform promptly; perform using competent personnel; establish accountability and responsibility for executing strategies and methodology; and build up arrangements and techniques to help the sending of the board's mandates (Janvrin et al., 2012; Hussaini & Muhammed, 2018). According to Mary et al. (2014) control activities were necessary since they enabled mitigation of risk through enforcement of organizational directives to address the entity's objectives. Mary et al in 2014, indicated that apart from performance review activities such as budgets, forecasts ought to be monitored to ensure deviations were corrected.

## Monitoring and Financial Performance

Monitoring was the assessment process to determine the value of the structure of control over a certain period. The processes of internal controls would be sufficiently examined to build up the level of adequacy of the framework's exhibition. Observing in an establishment ensured the discoveries of reviews and different surveys (Theophanous, Modjtahedi, Batech, Marlin, Luong & Fong, 2011). Amudo and Inanga (2009) stated that the smooth functioning of the controls system was guaranteed through proper monitoring. Through this process, the adoption and implementation of the policies and guidelines by the organization personnel was fully determined and assessed by management.

Monitoring was achieved through activities like regular supervision, the constant review of the feedback given by the customer and reports by internal auditors. According to Bowrin (2004), internal auditors appraised the system of internal control to determine whether the various functions were performing as expected. This not only allowed a systematic and controlled approach in evaluation but also improved risk management practices. It also promoted the governance process through an evaluation of the existing controls. It also allowed resolutions to be undertaken following the findings of audit reports (Rezaee et al., 2001). Several organizations faced immense challenges when executing an internal control system due to challenges such as lack of skilled staff, information systems, and resources to hire adequate staff. The study found a significant relationship between the inner review and financial performance.

According to Njoki (2015), monitoring the internal control systems regularly was very important to find out the efficiency and effectiveness of the activities. The study noted that monitoring included regular management and supervisory activities, as well as human resources. Regular monitoring encompassed actions against irregular, unethical and uneconomical internal control methods (Goodwin-Stewart & Kent, 2006). According to Bowrin (2004), the achievement of monitoring results was accelerated through carrying out periodical audits, handling customer complaints appropriately, supervising, managing activities and giving regular feedback.

A challenge that most Saccos faced was that the audits failed to establish and report an existing weakness. Unreported problems could not be resolved therefore leaving management unable to address such challenges. The auditor's report formed a basis for the formulation of guidelines and models that were practiced within the originations by management. Evaluation of guidelines was the responsibility of supervisors in different lines of the organization. Therefore, bank management ensured risk and control activities were addressed critically as well as promoted an environment where all employees were responsible for executing the guidelines (Basle, 1998).

According to Mary and Byaruhanga (2014)**,** physical controls required periodic counter checking out the amount shown in control records authorizations of some computer data files for asset security safeguard. As a result of the audit, frauds were detected in controls and therefore improved the organizational performance. However, the study noted that the effectiveness of physical control in the protection of assets depended on how well financial statements were prepared and the time of assets likelihood of fraud occurrence. Further Ondieki (2013) added that effective internal audits reduced extra costs through showing losses that if not well addressed would lead to continuous poor performance in an organization and safeguarding organizations' assets.

Further, internal audit indispensable instrument that enabled improvement of performance as well as increased stakeholder value. A survey that was conducted by Klynveld Peat Marwick Goerdeler [KPMG] (2007) on the role of internal audit function on organizational performance established that the existence of a functional and effective internal audit aided in organizational performance while at the same time improved performance. The study further concluded that the internal audit function helped in profit identification while reducing corporate disasters in the areas of financial fraud and identifying weak governance. With a functional and up to date internal audit system, then the organization reduces malpractices and irregularities hence achievement of the set organizational goals and objectives ensuring high productivity and profit maximization.

## Internal Control and Financial Performance

Mwachiro (2018) assessed whether internal controls had impacted the operation at the Kenya Revenue Authority. The variables in the study were the four elements of internal control. The study followed a causal/explanatory research design and correlation was examined between the outcome of internal controls and income assortment. Statistical analysis of data was adopted in this study revealing that for internal controls to work, all four elements were to be available. The findings showed that collusion, fraud and embezzlement of revenue were rampant where weak internal controls and poor ethical values in the organization existed. The end of the investigation was that there existed a significant connection between interior controls and an assortment of income at the establishment.

Ondieki (2013) examined the impact of internal auditing on the financial performance of commercial banks. It was investigated how each internal audit component affected the financial performance. The analysis found that by including extra features, internal controls could efficiently identify transactions that suggested fraud or, even better, stop it from happening in the first place. Although audits helped ensure that internal controls were operating as intended, they rarely revealed instances of fraud or unethical behavior. An internal audit sought to monitor how well the organization's management techniques were carrying out the organization's mission.

It was shown that the internal control plan affected employees' perceptions of fraud and that, in situations where robust internal control measures were in place, staff fraud was discouraged. This was a result of checks that were placed by the control systems to discourage such behavior. Conversely, inadequate processes left the organization vulnerable to dishonest behavior and fraud. The study came to the conclusion that preventing fraud required a robust internal control system.

Wainaina (2017) investigated process control at Kenya Polytechnic University's operations. The following risk assessment, control activities, and monitoring control settings were compared to the internal control function. The study's conclusion was that the management mostly relied on internal control systems to carry out its choices and maintain oversight over operations. As a result, effective Internal Control Systems (ICSs) were essential for controlling the organization's assets.

Barra (2019) examined the use of barriers, such as penalties and varying degrees of restrictions, on the representative's propensity to be untruthful. The results showed that the presence of these safeguards discouraged fraud since they increased the penalty for committing fraud. In this instance, the benefit of committing the deception outweighed the associated expenses in a situation where tasks were segregated. Additionally, the "least-cost" approach prevented fraud among workers who were not in managerial roles, while the maximum penalties for those in management served as a deterrent to fraud. To sum up, detective controls were necessary for control measures like separated duties.The study was carried out on 30 businesses all of which were registered by the National Social Security Fund (NSSF). The study evaluated how internal controls were affected by age of an enterprise, the number of resources it had, and how the internal controls related to the financial performance. The study unearthed deficiencies within the internal control system albeit with varying degrees amongst the sample. Indeed, it found deficiencies such as insufficient risk analysis, poor flow of information, and a lack of awareness as to what a good system of internal control entailed. Statistical analysis further found that there existed a negative relationship between the length of the period business had been in existence and the efficiency of its control system. Also, resources held by an association and their interior controls were contrarily connected. At long last, it found a feeble negative relationship between powerless inside control structures and financial performance. This examination, in any case, didn't inspect the particular highlights of inward control inside the association.

Amudo and Inanga (2019) examined the impact of internal control systems on the members of the African Development Bank in the region. The study mainly focused on Uganda. The variables were the factors of internal control namely information and communication, monitoring, risk assessment, control activities, and environment. It was found that aspects of the structure of internal control lacked which affected the effectiveness of the control structures and thus their improvement was recommended.

Goh (2019) examined the systems of internal control concerning members of the audit committee, the management, and the improvement of shortcomings in the systems. The significance of the audit committee was measured by the degree of its autonomy, the size, how regularly do they meet, and through their expertise. The management's autonomy, size, and the number of times they meet provided insights on their effectiveness, other factors that impact a timely resolution of shortcomings such as the extent of the system's deficiencies, firms' profitability, and intricacy of operations were also examined. The results were that the number of audit committee members and the level of their expertise in financial matters had a positive relationship with the resolution of the deficiencies. Further where the membership in the audit committee was large then the likelihood of resolving the deficiencies was high and prompt. An independent board was less likely to bow to any unwarranted pressure by management and likely to push management towards the remedying of weaknesses.

Olatunji (2019) inspected the effect of the structures of the inward control framework in the financial organizations in Nigeria. The examination identified controls played three functions of being preventive, criminologist, and restorative. Data were analyzed using SPSS version 23. Descriptive statistics such as frequencies, percentages, tables, graphs were used. The study revealed that the leading cause of fraud in the banking system in Nigeria was the absence of effective internal control. The conclusion was that bank management ought to establish a structure of internal control that would guard against any fraud. This would promote efficiency in operation and avoid liquidity concerns for the institutions.

Mawanda (2018) examined how the performance of institutions of higher learning in Uganda was affected by the structure of internal control. The two were found to have a significant relation thus recognized the role of the internal audit department in carrying out its responsibilities and its competence. This was because it had a direct result on financial performance. This examination assembled the associations on the premise of business fixation, innovation, social insurance, and money related administrations.

## 2.5 Research Gap

Research that were part of the literature review did not look at how internal control affected Saccos' financial performance in Tanzania. There was not much research done in this field, particularly in developing countries like Tanzania. Research on the variables did not show that the fundamental goal of internal control was fully implemented or achieved, even in Saccos in Dar es Salaam. There were some gaps in the studies' criteria, titles, scopes, and methods. Numerous hypotheses about the variables and the analysis between the independent and dependent variables were presented in the literature review.

## 2.6 Conceptual Framework

## Independent Variables Dependent Variable

Monitoring

Control Functions

Financial Performance

Risk Assessment

Communication

**Source:** Researcher (2024)

**Figure 2.1 Conceptual Framework**

**2.6.1 Explanation of Variables**

The framework explained the relationship that exists between the variable that is the dependent variable and the independent variable.

## Communication

It was involved with ensuring that the most important and critical information was captured well and correctly while at the same time ensuring the information flows in a definite direction cutting across all the chambers within and beyond the organization (Njoki, 2015).

## Risk Assessment

Any successful institution was surrounded by both internal and external risks (Karagiorgos et al., 2009). For this reason, the study identified some possible risks encountering the deposit-taking Sacco institutions to analyze them and give possible risk management solutions.

## Control Activities

This was a managerial unit in the organization and it analyzed policies, procedures, performance review, physical controls, information processing, delegation of duties and responsibilities across the institution while determining its efficiency and effectiveness from the data to be collected (Aikins, 2011).

## Monitoring

This was a continuous process in any institution to determine the progress and viability of set objectives in the long run to attain its goal (Theophanouset et al., 2011).

# CHAPTER THREE

# RESEARCH METHODOLOGY

## Introduction

This chapter described the research methodology of the study. It explained the procedures adopted by the researcher to answer the research questions validly and objectively. This chapter looked at the population, sample, and methods of data collection, procedures, and methods of analyzing the data.

## Research Philosophy

## Philosophy or “school of thought” in research accepted ways of how people view and look at reality and the consequent approaches/ methods to generate knowledge that is held by a group of intellectuals who wide have influence in that area. The basic premises behind the philosophy are based on how people view reality (Lufumbi, 2008). The study adopted positivism as the philosophical approach. Positivism approach research involves deductive process with a view to provide explanation to understand the social phenomenon hence it was associated with the statistical data analysis of quantitative methods.

## Research Design

Bryman and Bell (2014) defined research design as the arrangement and procedures adopted to solve the research problem. This study adopted a descriptive research design where the cause and effect relationships among variables are discovered and measured. The use of descriptive design empowered the researcher to gather extensive data concerning the population under investigation and gave legitimate proposals to the administration of the Sacco in Dar es salaam for better budgetary performance.

## Area of the Study

A location is a specific place where a study’s data is collected (Mugenda & Mugenda, 2003). The area of this study was Dar es salaam region.Most Saccos in Dar es salaam were employer-based where for instance workers join Saccos and repayment paid through salaries. Other groups include teachers, hospital staff, business people in organizations like the transport sector, and university among others. Different groups pooled together to save and get financing for school fees, business, health, and other economic activities.

## Target Population

The study population referred to all individuals whom the researcher deemed relevant to the research study (Mugenda & Mugenda, 2003). The population of the study consisted of 96 respondents drawn from 24 Sacco licensed by the Tanzania Commission for Development of Cooperatives (TCDC) in Dar es salaam region. The respondents included the Sacco managers, auditors, and the operation managers from the respective SACCOs.

## Sampling

A subset of the entire population that was selected systematically for a study was known as a sample (Bryman and Bell, 2014). Purposive sampling was used since the population was already defined from which data was obtained. The sample size was 96 respondents from 24 Saccos.

## Sample size

The number of units from which data was gathered was referred to as the sample size (Lavrakas, 2008). In this study, it involved persons familiar and well versed in structures of internal control and financial performance of the Saccos. The sample size was 96 respondents which were arrived at by selecting 4 respondents from the respective Saccos including operation manager, senior risk manager, internal auditor, and accountants in the 24 Saccos selected in Dar es salaam Region.

## Table 3.1: Sampling Distribution

|  |  |  |
| --- | --- | --- |
| **Category** | **No. of respondents.** | **24 Sacco’s** |
| 1. Operation managers | 1 | 24 |
| 2. Senior risk managers | 1 | 24 |
| 3. Internal auditors | 1 | 24 |
| 4. Accountants | 1 | 24 |
| **Total** | **4** | **96** |

**Source**: Researcher (2024)

## Research Instruments

The data which was used was obtained from both primary and secondary sources. The primary data were directly collected from experienced respondents by administering the questionnaires. This method saved time and resources. Secondary data was based on the already collected data obtained from audited financial reports of the Saccos for the year 2016 to 2020.

## Data Collection Procedures

The drop and pick method was preferred in data collection. This method involved leaving the questionnaires with the respondents and picked later. This allowed the respondent enough time to respond to the questions.

## Reliability

From the pretest repetitiveness, ambiguity and length of the questionnaires were corrected. To test the reliability of the interviewee's opinion in scale, Cronbach's Alpha coefficient was determined. Cronbach's alpha coefficient was performed to find out whether the questionnaire was consistent. A questionnaire was considered reliable if α was greater than 0.7. The reliability test was performed on the 10 pilot study responses (Kothari & Garg, 2014).

## Data Analysis and Presentation of Results

The collected data was both in the form of quantitative and qualitative. Quantitative data were analyzed by use of (SPSS 23) and the output presented by the use of descriptive statistics that included frequencies, mean, standard deviation, and percentages. A multiple linear regression model was used to determine whether Sacco performance was a function of the variables, it indicated on the specific objectives using correlation coefficients (r), analysis of variance and regression equation coefficients. It provided data on the impact of one independent variable while at the same time minimizing the effects of other independent variables.

## Validity

Validity as noted by Salkind, (2014) was the reliability of the measures adopted to carry out the intended role. It set out to ensure that what was intended to be measured was measured. This study considered content and criterion validity where under content validity. A variable was considered to be varied if it was in general agreement with existing literature (Zohrabi, 2013). Cooper & Schindler (2011) stated that the extent to which a particular variable related or predicted to the other variable was referred to as criterion validity. Criterion-related legitimacy of the applied system was controlled by looking at the numerous connection coefficients of all the free factors and financial performance. The questionnaire was reviewed by an expert in the field of study to ensure content validity. The researcher worked with the supervisor to uphold the content validity of the data collection instrument. The study also covered all saccos to further ensure the validity of the collected data was enhanced.

## Ethical Consideration

The researcher sought the informed consent of the respondent to participate by explaining verbally and in writing the purpose of the data collected, the identity of the researcher and how the results were used. The researcher further refrained from soliciting personal information that could undermine the confidentiality of the research. The researcher was given an introduction letter by the institution to confirm the research was for academic purposes only. Further, the researcher sought permission to collect data from the Directorate of Postgraduate studies of the Open University of Tanzania. All the sources of information were cited using American Psychology Association (APA) format. Everyone involved in the success of this research was acknowledged and data acquired was not fabricated.

# CHAPTER FOUR

# FINDINGS AND DISCUSSIONS

## Overview

This chapter presented the findings for each objective. The study set out to establish the effect of internal controls on the financial performance of Saccos in Dar es salaam in Tanzania. Internal controls looked at in this study included communication, risk management, control activities, and monitoring. The results included descriptive and inferential statistics presented as tables, graphs, and charts. The magnitude of the effect of the internal controls on the financial performance was determined using a linear regression model. Hypotheses of the study as derived from each objective were tested using the t- test and F-test.

## Response Rate

The researcher collected 75 questionnaires, which formed 78 percent of the sample size. According to Mugenda and Mugenda (2003), a response rate of 70% is appropriate for generalizing the sample results to the population.

## Demographic Description

This subsection provided descriptive statistics on demographic characteristics of respondents including gender, age, educational level and service experience. Other descriptive statistics provided in this section related to the frequency of review of internal controls, the validity of the internal controls to their intended function, and finally, the effectiveness of internal controls in revenue generation. These findings were in the form of tables, pie charts, and paragraphed explanations.

**Table 4.1: Demographics Characteristics of the Respondents**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **N** | **%** |
| **Gender** |  |  |
| Male | 35 | 46.0 |
| Female | 40 | 54.0 |
| **Total** | **75** | **100.0** |
| **Age (years)** |  |  |
| Below 18 years | 0 | 0 |
| 19 - 23 | 18 | 24.0 |
| 24 - 28 | 20 | 26.6 |
| 29 - 32 | 32 | 42.6 |
| Above 32 | 5 | 6.6 |
| **Total** | **75** | **100.0** |
| **Education** |  |  |
| Certificate | 11 | 14.5 |
| Diploma | 20 | 26.3 |
| Undergraduate degree | 35 | 46.0 |
| Master's degree | 9 | 13.1 |
| **Total** | **75** | **100.0** |
| **Service Experience** |  |  |
| Less than 1 year | 9 | 11.8 |
| 1-5 years | 20 | 26.3 |
| 6-10 years | 29 | 38.6 |
| 11-15 years | 10 | 13.3 |
| Above 15 years | 7 | 9.3 |
|  | **75** | **100.0** |

**Source:** Field data (2024)

## Educational Level

Table 4.1 showed that the majority of the respondents (46 percent) had an undergraduate degree whereas 26.6 percent had at most a diploma qualification. This showed that the respondents processed basic qualifications to work in the SACCOs and they possessed knowledge of the questions asked under this study.

## Service Experience

## According to Table 4.2, the cluster of experience with the highest number of

employees was more than four years that had 45.3 percent of the respondents. Forty percent of the respondents possessed less than 2 years of working experience in the Sacco while 14.6 percent of the respondents had between 2 to 4 years of working experience in the Sacco. Therefore, the working experience for the respondents was adequate for them to provide the required information for the study.

## Frequency of Internal Controls Review

## Table 4.2 Frequency of Internal Controls Review

|  |  |  |
| --- | --- | --- |
| **Period** | **N** | **%** |
| Quarterly | 32 | 42.1 |
| Semi-annually | 18 | 23.6 |
| Annually | 16 | 21.0 |
| When need Arises | 9 | 13.3 |
| **Total** | 75 | 100.0 |

## Source: Field data (2024)

Sacco's' internal controls were reviewed regularly as observed in Table 4.2 where the majority of the respondents confirmed that review was done quartely. However, 13.3 percent of the respondents observed that their Sacco only reviewed the internal controls when they deemed fit. This meant that internal controls were present in the Sacco and they were subject to regular review by management.

percent

no 4%

yes 96%

**Source:** Field data (2024)

**Figure 4.1 Functioning of Internal Controls**

Figure 4.1 further showed that internal controls were functioning as intended by management. Respondents further observed that there was good coordination in Sacco operations and those regular audits helped improve the functions of the internal controls. It was also observed that the system was safeguarded to reduce fraud and that policies were clearly articulated.

## Effectiveness of Internal Controls in Revenue Generation

## Table 4.3 Effectiveness of Internal Controls

|  |  |  |
| --- | --- | --- |
| **Period** | **N** | **%** |
| Very ineffective | 9 | 12.0 |
| Ineffective | 4 | 4.3 |
| Uncertain | 3 | 4.0 |
| Effective | 40 | 53.3 |
| Very Effective | 19 | 25.5 |
| **Total** | **75** | **100.0** |

**Source**: Field data (2024)

Table 4.3 showed that 78.8 percent of the respondents acknowledged revenue generation, which was attributed to its regular review by management the effectiveness of internal control systems in contributing to revenue generation. The respondents gave the rating as effective. Therefore, there was a consensus that internal controls contributed to (Table 4.3).

## Reliability Analysis

This section showed the findings on reliability as a proxy for the internal consistency of the questionnaire measured during the piloting phase of data collection. Cronbach's

Alpha determined the reliability whereby an alpha of 0.7 and above was required to conclude that the questionnaire section was reliable.

**Table 4.4 Reliability Analysis for Communication**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item-Total Statistics** | | | | |
| Scale Mean if Item Deleted | | Scale Variance if Item Deleted | Corrected Item- Total Correlation | Cronbach's Alpha if Item Deleted |
| Any omission detected is communicated to the right party | 13.0267 | 7.107 | 0.795 | 0.896 |
| All data communicated is captured well | 12.8267 | 7.497 | 0.834 | 0.883 |
| There is a clear flow of information in the organization | 12.9867 | 7.067 | 0.838 | 0.88 |
| The system implementation process is well communicated | 12.88 | 7.512 | 0.77 | 0.904 |
| **Overall section score** |  | | | **0.916** |

**Source:** Field data (2024)

Table 4.4 showed the reliability score for communication together with the change in Alpha score due to the deletion of a questionnaire item. The Alpha for communication was 0.916, which was above 0.7 hence deeming the questionnaire reliable in regards to communication.

## Table 4.5: Reliability Analysis for Risk Assessment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item-Total Statistics** | | | | |
| Scale Mean if Item Deleted | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item- Total Correlation | Cornbrash’s Alpha if Item Deleted |
| There is a risk  identification policy | 8.2933 | 2.507 | 0.679 | 0.466 |
| There is a risk analysis policy | 8.2933 | 2.480 | 0.742 | 0.384 |
| There is a risk management department in my organization | 8.1867 | 4.019 | 0.284 | 0.906 |
| The system implementation process is well communicated |  |  |  |  |
| **Overall section score** |  | | | **0.916** |

**Source:** Field data (2024)

Table 4.5 showed the reliability score for risk assessment together with the change in Alpha score due to the deletion of a questionnaire item. The Alpha for risk assessment was 0.727, which was above 0.7 hence deeming the questionnaire reliable in regards to risk assessment.

## Table 4.6: Reliability Analysis for Control Functions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item-Total Statistics** | | | | |
| Scale Mean if Item Deleted | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item- Total Correlation | Cornbrash’s Alpha if Item Deleted |
| Policies are governing the control systems | 17.1733 | 9.875 | .732 | .830 |
| Reviews on the system are regularly done | 17.4000 | 10.703 | .630 | .854 |
| Physical monitoring on the system is regularly done | 17.4000 | 8.838 | .814 | .806 |
| Information is processed efficiently | 17.3067 | 10.243 | .770 | .826 |
| Duties are well separated as per the roles | 17.5467 |  | .879 | 9.467 |

**Source:** Field data (2024)

Table 4.6 showed the reliability score for control functions together with the change in alpha score due to the deletion of a questionnaire item. The Alpha for control functions was 0.867, which was above 0.7 hence deeming the questionnaire reliable in regards to control functions.

## Table 4.7: Reliability Analysis for Monitoring

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item-Total Statistics** | | | | |
| Scale Mean if  Item Deleted | | Scale Variance  if Item Deleted | Corrected Item-  Total Correlation | Cornbrash’s  Alpha if Item Deleted |
| Evaluations of the quality of internal controls are done  regularly | 8.4400 | 2.358 | 0.677 | 0.851 |
| Internal audit is done on regular intervals | 8.2933 | 2.643 | 0.776 | 0.745 |
| Feedback reports are given regularly | 8.4933 | 2.740 | 0.731 | 0.786 |
|  |  | Overall Section Score | | 0.851 |

**Source:** Field data (2024)

Table 4.7 showed the reliability score for monitoring together with the change in Alpha score due to the deletion of a questionnaire item. The Alpha for monitoring was 0.851, which was above 0.7 hence deeming the questionnaire reliable in regards to monitoring.

## Table 4.8: Overall Reliability Analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Item-Total Statistics** | | | | |
| Scale Mean if  Item Deleted | | Scale Variance  if Item Deleted | Corrected Item-  Total Correlation | Cronbach's  Alpha if Item Delete d |
| Any omission is communicated | 59.5467 | 90.521 | 0.658 | 0.918 |
| Data communicated is captured | 59.3467 | 91.500 | 0.691 | 0.917 |
| There is a clear flow of information | 59.5067 | 90.848 | 0.661 | 0.918 |
| System implementation communicated | 59.4000 | 91.757 | 0.636 | 0.919 |
| Risk identification policy | 59.6667 | 94.360 | 0.442 | 0.925 |
| Risk management department in my organization | 59.7467 | 95.408 | 0.342 | 0.930 |
| Policies are governing the control systems | 59.2267 | 91.745 | 0.698 | 0.917 |
| Reviews on the system | 59.4533 | 93.251 | 0.662 | 0.918 |
| Physical monitoring on the system | 59.4533 | 88.846 | 0.764 | 0.915 |
| Information is processed efficiently | 59.3600 | 91.774 | 0.794 | 0.915 |
| Duties are well separated | 59.6000 | 88.865 | 0.667 | 0.918 |
| Evaluations of the quality of internal controls | 59.5867 | 89.273 | 0.769 | 0.915 |

**Source:** Field data (2024)

Table 4.8 showed the reliability score for the four variables combined with the change in Alpha score due to the deletion of a questionnaire item. The overall alpha was 0.924, which was above 0.7 hence deeming the whole questionnaire reliable in regards to internal controls.

## Description of Study Variables

This section gave the descriptive statistics for the questionnaire items for each variable. The statistics used were frequency, percentages, and means presented in form of tables. The questions were in the form of a five-point Likert scale were 1, 2, 3, 4, and 5 represented strongly disagree, disagree, neutral, agree, and strongly agree respectively.

## Table 4.9 Descriptive Statistics for Communication

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| N=75 | Question | (1) | (2) | (3) | (4) | (5) | Mean |
| 1 | Any omission detected | 3 | 2 | 10 | 21 | 39 | 4.21 |
|  | is communicated to the | (4.0%) | (2.7%) | (13.3%) | (28.0%) | (52.0%) |  |
|  | right party |  |  |  |  |  |  |
| 2 | All data communicated | 2 | 1 | 8 | 17 | 47 | 4.41 |
|  | is captured well | (2.7%) | (1.3%) | (10.7%) | (22.7%) | (62.7%) |  |
| 3 | There is a clear flow of | 4 | 3 | 10 | 19 | 41 | 4.25 |
|  | information in the | (2.7%) | (4.0%) | (13.3%) | (25.3%) | (54.7%) |  |
|  | organization |  |  |  |  |  |  |
| 4 | The system | 2 | 2 | 9 | 16 | 46 | 4.36 |
|  | implementation process | (2.7%) | (2.7%) | (12.0%) | (21.3%) | (61.3%) |  |
|  | is well communicated |  |  |  |  |  |  |
|  | **Average** | 3.03% | 2.68% | 12.33% | 24.33% | 57.68% | 4.31 |
|  | **Summary** | Negative = 18.00% | | | Positive = 82.00% | |  |

**Source**: Field data (2024)

Table 4.9 showed the descriptive statistics for communication summarized by four questions. All the four questionnaire items addressing communication had a mean of more than four out of a maximum of five. This showed that the majority were in agreement with the assertions that omissions were communicated to the right party, that all communication was captured well, there was a clear flow of information, and that the system implementation process was well communicated. The overall mean was 4.31 out of 5; hence, the overall response was positive in support of good communication in the sampled Sacco’s.

## Risk Assessment Descriptive Statistics

## Table 4.10Descriptive Statistics for Risk

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| N=75 | Question | (1) | (2) | (3) | (4) | (5) | Mean |
| 1 | There is a risk | 4 | 3 | 6 | 31 | 31 | 4.09 |
|  | identification policy | (5.3%) | (4.0%) | (8.0%) | (41.3%) | (41.3%) |  |
| 2 | There is a risk analysis | 3 | 3 | 9 | 29 | 31 | 4.09 |
|  | policy | (4.0%) | (4.0%) | (12.0%) | (38.7%) | (41.3%) |  |
| 3 | There is a risk | 2 | 0 | 14 | 24 | 35 | 4.20 |
|  | management | (2.7%) | (0.0%) | (18.7%) | (32.0%) | (46.7%) |  |
|  | department in my |  |  |  |  |  |  |
|  | organization |  |  |  |  |  |  |
|  | **Average** | 4.00% | 2.67% | 12.90% | 37.33% | 43.10% | 4.13 |
|  | **Summary** | Negative = 19.57% | | | Positive = 80.43% | |  |

**Source:** Field data (2024)

Table 4.10 showed the descriptive statistics for risk summarized by three questions. All three questionnaire items addressing risk had a mean of more than four out of a maximum of five. This, therefore, showed that the majority among the respondents agreed to the assertions that there is a risk identification process, there was a risk analysis policy and finally, that there was a department set in the organization for risk management. The overall mean was 4.13 out of 5; hence, the overall response was positive in support of good risk management in the sampled Sacco.

## Control Functions

**Table 4.11: Descriptive Statistics for Control Functions**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| N=75 | Question | (1) | (2) | (3) | (4) | (5) | Mean |
| 1 | Policies are governing | 1 | 5 | 0 | 16 | 53 | 4.53 |
|  | the control systems | (1.3%) | (6.7%) | (0.0%) | (21.3%) | (70.7%) |  |
| 2 | Reviews on the system | 0 | 1 | 15 | 19 | 40 | 4.31 |
|  | are regularly done | (0.0%) | (1.3%) | (20.0%) | (25.3%) | (53.3%) |  |
| 3 | Physical monitoring on | 2 | 3 | 10 | 15 | 45 | 4.31 |
|  | the system is regularly | (2.7%) | (4.0%) | (13.3%) | (20.0%) | (60.0%) |  |
|  | done |  |  |  |  |  |  |
| 4 | Information is | 1 | 1 | 6 | 26 | 41 | 4.40 |
|  | processed efficiently | (1.3%) | (1.3%) | (8.0%) | (34.7%) | (54.7%) |  |
| 5 | Duties are well | 5 | 2 | 8 | 21 | 39 | 4.16 |
|  | separated as per the | (6.7%) | (2.7%) | (10.7%) | (28.0%) | (52.0%) |  |
|  | roles |  |  |  |  |  |  |
|  | **Average** | 2.40% | 3.20% | 10.40% | 25.86% | 58.14% | 4.34 |
|  | **Summary** | Negative =16 % | | | Positive = 84% | |  |

**Source**: Field data (2024)

Table 4.11 showed the descriptive statistics for control functions summarized by five questions. All the five questionnaire items addressing control functions had means of more than four out of a maximum of five. This indicated that the majority of the respondents agreed to the assertions of the existence of policies governing control systems, regular monitoring and review of control systems, processing of information was efficient, and finally, separation of duties as per the roles. The overall mean was 4.34 out of 5; hence, the overall response was positive in support of proper control systems in the sampled Sacco’s.

## Monitoring

**Table 4.12: Descriptive Statistics for Monitoring**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| N=75 | Question | (1) | (2) | (3) | (4) | (5) | Mean |
| 1 | Evaluations of the | 1 | 5 | 10 | 23 | 36 | 4.17 |
|  | quality of internal | (1.3%) | (6.7%) | (13.3%) | (30.7%) | (48.0%) |  |
|  | controls are done |  |  |  |  |  |  |
|  | regularly |  |  |  |  |  |  |
| 2 | Internal audit is done | 1 | 0 | 11 | 25 | 38 | 4.32 |
|  | on regular intervals | (1.3%) | (0.0%) | (14.7%) | (33.3%) | (50.7%) |  |
| 3 | Feedback reports are | 1 | 1 | 12 | 35 | 26 | 4.12 |
|  | given regularly | (1.3%) | (1.3%) | (16.0%) | (46.7%) | (34.7%) |  |
|  | **Average** | 1.30% | 2.67% | 14.67% | 36.90% | 44.47% | 4.20 |
|  | **Summary** | Negative = 18.63% | | | Positive = 81.37% | |  |

**Source**: Field data (2024)

Table 4.12 showed the descriptive statistics for monitoring summarized by three questions. All three questionnaire items addressing monitoring had a mean of more than four out of a maximum of five. This showed that the majority of the respondents agreed to the assertions that there was regular evaluation of the quality of internal controls, internal audit was done regularly, and finally, those feedback reports are given regularly. The overall mean was 4.20 out of 5; hence, the overall response was positive in support of monitoring in the sampled Sacco’s.

## Financial Performance

**Table 4.13 Descriptive Statistics for Financial Performance**

|  |  |  |
| --- | --- | --- |
| Performance level | Frequency | Percent |
| High | 34 | 45.3 |
| Moderate | 25 | 33.3 |
| Low | 10 | 13.3 |
| Very Low | 6 | 8.0 |
| Total | 75 | 100.0 |

**Source:** Data Analysis (2024)

Table 4.13 showed that majority of the Sacco banks had at least moderate performance with only a few (21.3 percent) performing below average financially. This showed that the performance of Saccos in Dar es salaam was good and this trend correlates with the high levels of internal controls observed in Tables 4.10, Table 4.11, Table 4.12, and Table 4.13 representing communication, credit risk assessment, control activities, and monitoring respectively.

## Linear Regression Assumptions

The study used linear regression to link between the dependent variable (financial performance) and the independent variables (communication, credit risk assessment, control activities, and monitoring). To use this model, the study tested four underlying assumptions, which included normality of regression residuals, linearity between independent and dependent variables, homoscedasticity, and absence of multicollinearity among independent variables.

## Outliers

Outliers were identified with the aid of SPSS for removal because they compromised the normality of data and often lead to false conclusions (Kwak & Kim, 2017). Mahalanobis statistics and Cook’s Distance statistics were generated from an initial regression run. The cutoff value for Mahalanobis statistics was from the chi-square distribution, χ (5%, five variables) = 11.0705 while the cut-off for Cooks Distance was 4/(n-k-1) where k was several independent variables (k=4) and n was 75 cases; 4/ (75-4-1) = 0.05714. From the analysis, seven cases that had values above the aforementioned cutoff points were determined to be outliers. These outliers were unselected for testing of assumptions and consequent linear regression modeling.

## Normality

**Source:** Data Analysis (2024)

**Figure 4.2: Histogram of Standardized Residuals**

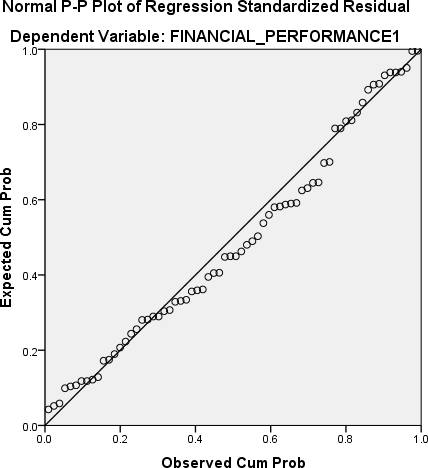
The histogram of regression-standardized residuals in Figure 4.2 a bell shape slightly skewed to the right. However, the overall visual impression was that the residuals appear normally distributed around the zero value.

## Table 4.14 Tests of Normality

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Kolmogorov-Smirnova | | | | Shapiro-Wilk | |  |
|  | Statistic | Df | Sig. | Statistic | df | Sig. |
| Unstandardized Residual | 0.085 | 68 | 0.200\* | 0.968 | 68 | 0.075 |

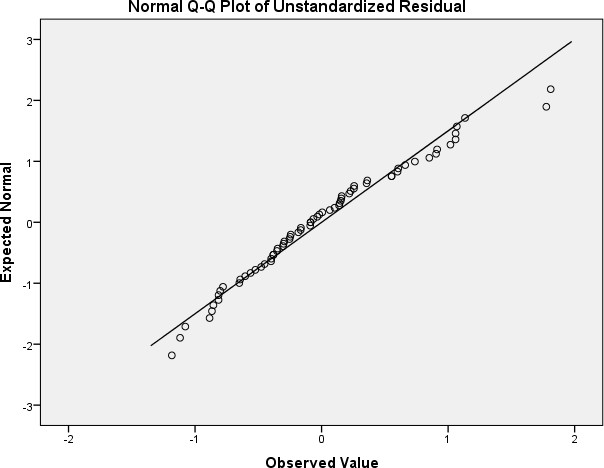
**Source:** Data Analysis (2024)

Table 4.14 showed the Shapiro-Wilk test of normality that tests the null hypothesis of a normal distribution of unstandardized residuals against the alternate hypothesis that there was an absence of normality in the data. By observation, Shapiro-Wilk statistics had a corresponding p-value of 0.075, which was more than a 5% significance level; hence, retaining the null hypothesis deeming the unstandardized residuals normally distributed.



## Source: Data Analysis (2024)

## Figure 4.3: Normal P-P Plot of Standardized Residuals

By visually inspecting Figure 4.3, the observed cumulative probability values spread around the expected cumulative probability curve (normal curve) hence concluding that the standardized regression residuals followed a normal distribution.

**Source**: Data Analysis (2024)

## Figure 4.4: Normal Q-Q Plot of Growth

Figure 4.4 shows that the observed values fitted well along the Normal Q-Q plot. This corroborates the findings from Shapiro-Wilk normality test in Table 4.15 as well as the normal p-p plot (Figure 4.3) and histogram of unstandardized residuals (Figure 4.2).

## Multicollinearity (Additivity)

## Table 4.15: Collinearity Statistics

|  |  |  |
| --- | --- | --- |
| **Collinearity Statistics** | | |
|  | **Tolerance** | **VIF** |
| (Constant) | - | - |
| Communication | 0.879 | 1.138 |
| Control Activities | 0.598 | 1.671 |
| Monitoring | 0.486 | 2.057 |
| Risk | 0.653 | 1.532 |

**Source**: Data Analysis (2024)

The variance inflation factors (VIF) values in Table 4.44 showed the collinearity statistics. The observed VIF values were less than 3.00, which was the cutoff point according to (Bickel, 2007) hence concluding that there was no multicollinearity amongst the independent variables.

## Linearity

**Table 4.16: Analysis of Variance for Combined Independent Variables**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sum of Squares** | **Df** | **Mean Square** | **F** | **p-value** |
| Regression | 18.998 | 4 | 4.75 | 10.057 | .000b |
| Residual | 29.752 | 63 | 0.472 |  |  |
| Total | 48.75 | 67 |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | |
| b. Predictors: (Constant), Risk, Communication, Control Activities, Monitoring | | | | | |

**Source:** Data Analysis (2024)

Table 4.16 showed the analysis of variance, which tested the null hypothesis that the predictors (internal controls) had no linear relationship to the dependent variable (financial performance). The alternative hypothesis was that the predictors were linearly related to the dependent variable. The observed p-value for the F-statistics in ANOVA was 0.000, which was less than the significance level of 5 percent. Therefore, the null hypothesis was rejected bringing to the conclusion that the predictors (internal controls) relate linearly to the dependent variable (financial performance).

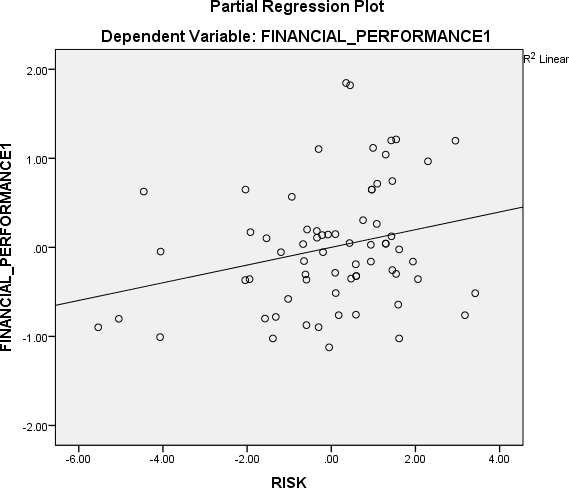
## Table 4.17: Model Summary for Combined Independent Variables

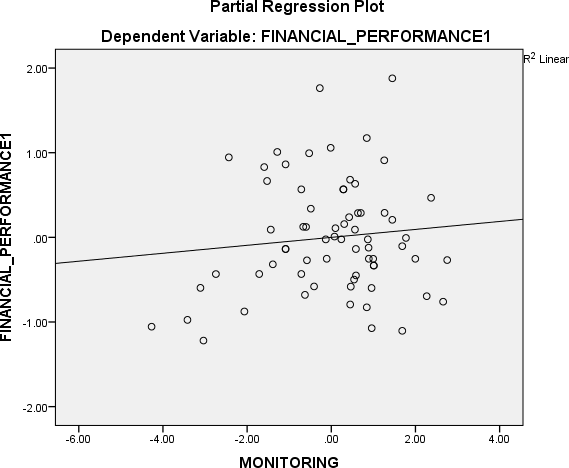
|  |  |  |  |
| --- | --- | --- | --- |
| R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 0.624a | 0.39 | 0.351 | 0.6872 |

**Source**: Data Analysis (2024)

Further, the coefficient of multiple correlations (R) in Table 4.17 was 62.4%, which was a high correlation between the predictors and the dependent variable hence corroborating the findings from the ANOVA.

## Figure 4.5: Partial Linearity Plots





The partial plots in Figure 4.5 showed that each independent variable had a linear relationship with the dependent variable albeit at different degrees. For instance, risk (partial plot 4) and communication (partial plot 1) were more linearly related to financial performance compared to control activities (partial plot 2) and monitoring (partial plot 3). Nevertheless, the slope on all the four plots was positive and visible as depicted by the trend lines therein.

## Homoscedasticity

**Table 4.18: Breusch-Pagan and Koenker test**

|  |  |  |
| --- | --- | --- |
| Statistic | LM | P-Values |
| BP | 3.979 | 0.409 |
| Koenker | 3.945 | 0.413 |

**Source:** Data Analysis (2024)

Table 4.18 displayed the Breusch-Pagan (BP) and Kroeker test that tested the null hypothesis that heteroscedasticity was not present (hence, homoscedasticity). Since the observed p-value of BP and Koenker tests were 0.409 and 0.413 respectively, and they were less than 5%, hence there was no heteroscedasticity. Therefore, the assumptions of homoscedasticity had been met.

## Hypothesis Testing

The study set out to test four null hypotheses in line with the specific objectives.

𝐻01: There was no significant relationship between communication and financial performance.

𝐻02: There was no significant relationship between risk assessment and financial performance.

𝐻03: There was no significant relationship between control functions and financial performance.

𝐻04: There was no significant relationship between monitoring and financial performance.

With the aid of SPSS, simple linear regression analysis was carried out to showed the relationship between each independent variable (communication, risk, control activities, and monitoring) and dependent variable (financial performance). T-test was used to test the four corresponding hypotheses.

## Linear Regression Financial Performance against Communication

The linear relationship between financial performance and communication was per general form below

FP = α + β\*Comm +έt……………………………………………..eqn.1

PF=Financial Performance

Comm = communication

α = Regression intercept

β = Coefficient of communication

έ = Regression error term

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| FP = | 0.729 | + | 0.113\*Comm | ………………………………..(1) |
| *t-statistic* | *1.358* |  | *3.825* |  |
| *p-value* | *0.179* |  | *0.000* |  |
| R | 0.426 (42.6%) | | |  |
| R-square | 0.181 (18.1%) | | |  |
| F-statistic | F = 14.628; p = 0.000 | | |  |

𝐻01: There was no significant relationship between communication and financial performance

Financial performance was the dependent variable in equation 1 while communication was the independent variable. The results showed that financial performance had a positive relationship with communication, which implied that both variables moved in the same direction. The coefficient of determination, (R-square) showed that communication as an independent variable explained 18.1% of variations in the financial performance of Saccos in Dar es salaam. Equation 1 also showed that a unit increase in communication led to a 0.113 increase in financial performance while holding other factors constant. The p-value of the coefficient of communication was 0.000, which was less than 5% (0.05). Therefore, 𝐻01 was rejected hence concluding that at a significance level of 5%, communication was significantly related to the financial performance of Saccos in Dar es salaam. The results concurred with those of Akintaro & Shonubi (2016) in a study on effective communication and organizational success which concluded that there was effective communication, activities flow in a definite direction and enhanced coordination leading to organizational success.

## Linear Regression of Financial Performance against Risk Assessment

The linear relationship between financial performance and risk assessment was in the general form below

FP = α + β\*Risk+έt……………………………………………..eqn.2

PF=Financial Performance

Risk = Risk assessment

α = Regression intercept

β = Coefficient of risk assessment

έ = Regression error term

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| FP = | 0.493 | + | 0.181\*Risk | …………………………………………………….. (2) |
| *t-statistic* | *0.938* |  | *4.366* |  |
| *p-value* | *0.352* |  | *0.000* |  |
| R | 0.473 (47.3%) | | |  |
| R-square | 0.224 (22.4%) | | |  |
| F-statistic | F = 19.065; p = 0.000 | | |  |

𝐻02: There was no significant relationship between risk management and financial performance

Financial performance was the dependent variable in equation 2 while risk management was the independent variable. The results showed that financial performance had a positive relationship with risk management, which implied that both variables moved in the same direction. The coefficient of determination, (R-square) showed that risk management as an independent variable explained 22.4% of variations in the financial.

Performance of Saccos in Dar es salaam. Equation 2 also showed that a unit increase in risk management led to a 0.181 increase in financial performance while holding other factors constant. The p-value of the coefficient of risk management was 0.000, which was less than 5% (0.05). Therefore, 𝐻02 was rejected hence concluding that at a significance level of 5%, risk management was significantly related to the financial performance of Saccos in Dar es salaam. The results were similar to those of Kariuki (2017) in a study on credit risk management practices and financial performance where he concluded that it reduces bad debts and financial losses in turns improving on the financial performance.

## Linear Regression of Financial Performance against Control Functions

The linear relationship between financial performance and control functions was in the general form below

FP = α + β\*Control +έt……………………………………………..eqn.3

PF=Financial Performance

Control = Control functions

α = Regression intercept

β = Coefficient of Control functions

έ = Regression error term

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| FP = | 0.052 | + | 0.124\*Ctrl | …………………………………………………….. (3) |
| *t-statistic* | *0.080* |  | *4.164* |  |
| *p-value* | *0.936* |  | *0.000* |  |
| R | 0.456 (45.6%) | | |  |
| R-square | 0.208 (20.8%) | | |  |
| F-statistic | F = 17.339; p = 0.000 | | |  |

𝐻03: There was no significant relationship between control functions and financial performance

Financial performance was the dependent variable in equation 3 while control functions as the independent variable. The results showed that financial performance had a positive relationship with control functions, which implied that both variables moved in the same direction. The coefficient of determination, (R-square) showed that control functions as an independent variable explained 20.8% of variations in the financial performance of Saccos in Dar es salaam. Equation 3 also showed that a unit increase in control functions led to a 0.124 increase in financial performance while holding other factors constant. The p-value of the coefficient of control functions was 0.000, which was less than 5% (0.05). Therefore, 𝐻03 was rejected hence concluding that at a significance level of 5%, control functions were significantly related to the financial performance of Saccos in Dar es salaam The results concurred with those of Kiyieka (2018) in a study on internal control

activities and financial performance which revealed a significant relationship between the two variables.

## Linear Regression of Financial Performance against Monitoring

The linear relationship between financial performance and risk is in the general form below

FP = α + β\*Monit +έt…………………………………………..eqn.4

PF=Financial Performance

Monit = Monitoring functions

α = Regression intercept

β = Coefficient of monitoring functions

έ = Regression error term

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| FP = | 0.261 | + | 0.196\*Mon | | ……………………………………………………..(4) |
| *t-statistic* | *0.464* |  | *4.488* | |  |
| *p-value* | *0.644* |  | *0.000* | |  |
| R | 0.484(48.4%) | | |
| R-square | 0.234 (23.4%) | | |
| F-statistic | F = 20.140; p = 0.000 | | |

𝐻04: There was no significant relationship between monitoring and financial performance

Financial performance was the dependent variable in equation 4 while monitoring was the independent variable. The results showed that financial performance had a positive relationship with monitoring, which implied that both variables moved in the same direction. The coefficient of determination, (R-square) showed that monitoring as an independent variable explained 23.4% of variations in the financial performance of Saccos in Dar es salaam. Equation 4 also showed that a unit increase in monitoring led to a 0.196 increase in financial performance while holding other factors constant. The p- value of the coefficient of monitoring was 0.000, which was less than 5% (0.05). Therefore, 𝐻04 was rejected hence concluding that at a significance level of 5%, monitoring was significantly related to the financial performance of Saccos in Dar es salaam. These results concurred with those of a study conducted by Njoki (2015) on the role of monitoring activities on the effectiveness and efficiency and concluded that regular and continued monitoring and evaluation led to enhanced efficiency and effectiveness in the financial performance.

* + 1. **Multiple Linear regression of Financial Performance against Internal Controls**

The linear relationship between financial performance and internal controls was in the general form below

FP = α + β1\*Comm + β2\*Risk+ β3\*Ctrl+ β4\*Mon+έt

Where

PF=Financial Performance

Comm= Communication

Risk = Risk assessment

Control=Control activities

Monit = Monitoring functions

α = Regression intercept

β1 = Coefficient of communication

β2 = Coefficient of risk assessment

β3= Coefficient of control activities

β4 = Coefficient of monitoring functions

έ = Regression error term

The regression equation of the linear regression analysis is:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Y = | -1.593 | + 0.076Comm | | + 0.099Risk | + 0.053Ctrl | +0.047Mon | +e.. | (5) |
| *Std.*  *error* | *0.704* | *0.028* | | *0.035* | *0.057* | *0.046* |  |  |
| *t – stat* | *-2.262* | *2.734* | | *2.138* | *1.517* | *0.822* |  |  |
| *p-value* | *0.027* | *0.008* | | *0.036* | *0.134* | *0.414* |  |  |
| R | | | 0.624 (62.4%) | | | | | |
| R-square | | | 0.390 (39%) | | | | | |
| F-statistic | | | F = 10.057; p = 0.000 | | | | | |

Equation 5 showed the results from the multiple linear regression analysis with all internal controls of the study entered jointly as the independent variables while financial performance was the dependent variable. The results contained t-statistic and the corresponding p-values that were used to form conclusions on the study's hypotheses. The beta coefficients for each internal control showed the increment of financial performance for the marginal increment of each respective internal control.

In regards to communication, the observed p-value was 0.008, which was less than 0.05 hence the null hypothesis on communication was rejected. Therefore, communication significantly affected the financial performance of Saccos in Dar es salaam while holding other factors constant. The marginal increase in communication as an internal control led to 0.076 increase financial performance of Saccos in Dar es salaam while holding other factors constant.

In regards to risk, the observed p-value was 0.036, which was less than 0.05 hence the null hypothesis on risk was rejected. Therefore, risk significantly affected the financial performance of Saccos in Dar es salaam while holding other factors constant. The marginal increase in risk assessment as an internal control led to 0.099 increase financial performance of Saccos in Dar es salaam while holding other factors constant.

In regards to control functions, the observed p-value was 0.134, which was more than 0.05 hence the null hypothesis on control activities was not rejected. Therefore, control functions did not significantly affect the financial performance of Saccos in Dar es salaam while holding other factors constant. The marginal increase in control functions as an internal control led to 0.053 increase financial performance of Saccos in Dar es salaam while holding other factors constant.

Concerning monitoring as an internal control, the observed p-value was 0.414, which was more than 0.05 hence the null hypothesis on monitoring was not rejected. Therefore, monitoring did not significantly affect the financial performance of Saccos in Dar es salaam while holding other factors constant. The marginal increase in monitoring as an internal control led to 0.047 increase financial performance of Sacco in Dar es salaam while holding other factors constant. Mwachiro (2013) in a study on internal control systems and financial performance concluded that effective internal control systems were the key pillars towards the achievement of financial performance in financial institutions.

## Table 4.19: Hypotheses Summary based on Independent Linear Regressions

|  |  |  |  |
| --- | --- | --- | --- |
| **Null Hypothesis** | **P-Value** | **Decision** | **Remarks** |
| 𝐻01: There is no significant relationship between communication and financial performance | 0.000 | 𝐻01 rejected | P<0.05 |
| 𝐻02: There is no significant relationship between risk assessment and financial performance | 0.000 | 𝐻02 rejected | P<0.05 |
| 𝐻03: There is no significant relationship between control functions and financial performance | 0.000 | 𝐻03 rejected | P<0.05 NB:  Is not significant after joint  regression (equation 5; p = 0.134) |
| 𝐻04: There is no significant relationship between monitoring and financial performance | 0.000 | 𝐻04 rejected | P<0.05 NB:  Is not significant after joint  regression (equation 5; p = 0.414) |

**Source:** Data analysis (2024)

# CHAPTER FIVE

# SUMMARY OF MAIN FINDING, CONCLUSIONS AND RECOMMENDATIONS

## Introduction

This chapter presented a summary of the findings of the study, the conclusions, recommendations and areas of further research. The objectives of the study were to establish the effect of communication on the financial performance, to determine the effect of risk assessment on the financial performance, to find out the effect of control functions on the financial performance and to assess the effect of monitoring on the financial performance of Sacco in Tanzania.

## Summary of the Findings

A major component of the Saccos' everyday operations was the goal of communication, since staff members were eager to point out and detect any errors that could result in losses if not handled properly. However, in order to keep things going smoothly and produce more accurate results, the staff made sure that all the data was appropriately entered into the system and assigned to the appropriate accounts. In order to identify the appropriate routes and media for improved information reporting and feedback, the systems also made sure that the flow of information was clearly defined. Because spoken and written policies and information should correspond with the activities conducted, implementation of the stated information was guaranteed.

The policies and instructions on how to detect risk areas inside the system and how to handle and report the same to the relevant department took care of the risk management objective to some extent. Committees and individuals in charge of managing and resolving risks within the Saccos were also involved in risk assessments. Employees had access to risk analysis techniques as a support tool for risk reduction in the organizations. Additionally, all cases reported on risk within the institution were handled by a risk management team. Additionally, the management group would develop risk management and avoidance strategies that were prepared for deployment at various Saccos levels.

The majority of respondents to objective three, which examined control functions, agreed that reviews were conducted at varying periods in various Saccos. There was a difference in the frequency of reviews conducted in each Sacco. The majority of respondents acknowledged that there were people in charge of the organization's operations and physical controls, which is evidence that there was physical control. On the other hand, information was handled correctly and efficiently, notwithstanding a few instances of system failure brought on by inadequate maintenance or even power-related issues. Tasks were distinctively defined and employees were aware of their mandate which to some extent made their work easier as most of them were aware of what was expected of them.

Goal four confirmed that the Saccos had monitoring in place to verify that the systems were current and that the team in charge of that monitoring made sure the system was continuously evaluated to make sure it was functioning. To guarantee that the reports and findings were current, the activities were also observed every day. There was not a single Sacco that did not participate in an internal audit, whether it was conducted internally or by a third party. According to each Sacco's policy and process, this varied in duration. Following monitoring and assessment, recommendations were made and feedback was provided as needed. This provided the individual Saccos with a feeling of purpose and direction.

## Conclusions

In conclusion, there were situations when communication was ineffective since omissions might be discovered later, which could result in losses. Since there are gaps in the reports, omissions would prevent the books of account from producing correct reports. It could originate from a lack of experience with the systems, inadequate training on flexibility, or even an outdated system. Occasionally, data is either incompletely entered into the system or incorrectly entered, leading to inaccurate or subpar outcomes.

According to the study's findings, a lot of Saccos had risk assessment rules in place, although they did not always strictly adhere to them. Certain personnel lacked awareness of potential danger areas, making it difficult for them to recognize potential threats. Even when the concerns were identified, another group was unable to report them despite being aware of the potential dangers. For the most part, the Saccos were unable to carry out a risk analysis program that would have allowed all parties involved to comprehend the process from beginning to end. This would have allowed them to assess a situation and know how to spot any potential weaknesses before they became a risk crisis.

Some Saccos attempted to control risk to a stable level, while others did a bad job of it. Risk management ensures that events don't spiral out of control and cause the Saccos to suffer significant losses and damages. It requires the Saccos to have backup plans and policies that outline how to handle various risks that could be suffered at any given time.

Policies pertaining to control functions aided in regulating and guaranteeing that all functions were under control and that all events were recorded. To guarantee that the systems and functions were current, the operations were examined on a regular basis. On an average workday, there were personnel in charge of the organization's physical operational control over functions to ensure that nothing went overlooked and caused mistakes or system malfunctions. With the aid of updated, standardized systems run by skilled staff, information was generated on time. There have occasionally been information breakdowns due to incorrect data selection, outdated systems, or power outages.

Lastly, as policies guided the operations to some extent and were continuously reviewed and assessed, monitoring was a crucial factor in all Saccos. The assessment ensured that a follow-up was conducted regarding the expectations' compliance. Every Sacco family had an internal audit division, and at some point, an internal audit was conducted to compare actual results to expectations and verify that operations were carried out as planned. This was accomplished by using either contracted services or internal auditors. The length of time that each institution conducted an internal audit was different. Regular feedback and recommendations were provided to help with the monitoring and evaluation process.

## Recommendations

It was recommended that the Saccos should design a very effective communication channel that was user friendly and that accommodates all sorts of information that need to be shared. The communication system should also be updated regularly to avoid breakdowns. The flow of information ought to be well defined and not too complicated to avoid distortion of information before it gets to the intended recipient to ensure the correct feedback is acquired.

While dangers differ from company to company and are constantly evolving, all organizations are susceptible to them. It was therefore crucial that the Saccos have risk assessment protocols and rules in place to aid them in managing the many risks that might materialize. To guarantee that everyone is aware of potential risks, preventive actions they should take, and risk reduction, avoidance, and solution strategies, there should be sufficient training on risk identification and analysis. A dynamic and functional risk management team should constantly oversee and direct the organization.

Since the control functions are the lifeblood of the Saccos, they ought to be easily accessible and updated on a regular basis. If the operations are not functioning, they will eventually become paralyzed. This could be accomplished by making sure the user always has access to the guiding policies and guidelines. Regular reviews are also necessary to make sure they remain current and meet the evolving demands of the market and functional specifications. It is also advised that physical control be exercised consistently to prevent operational laxity.

The Saccos' lifeblood is their control functions, which is why they should be readily available and regularly updated. The operations will eventually become paralyzed if they are not operating. Making sure the user always has access to the governing policies and guidelines could help achieve this. To ensure that they stay up to date and satisfy the changing needs of the market and functional requirements, regular reviews are also required. To avoid operational laxity, it is also suggested that physical control be applied regularly.

Lastly, the study suggested that the secret to guaranteeing improved performance was activity monitoring. As a result, it suggested that while evaluating jobs and systems, the functionality, expectations, and methods for achieving results be taken into account. The study also suggested that the internal audit function be given more importance in order to guarantee that it is carried out on a regular basis with the goal of accountability and reconciliation in order to improve performance and outcomes. It was crucial to provide feedback at every stage of the process to ensure that the control process, which measured the organization's progress toward reaching the desired outcomes by contrasting the actual and expected results, could proceed.

* 1. **Limitations of the Study**

The respondents were reluctant to disclose information that was considered confidential or that contravened their employment laws. To counter this, the researcher introduced himself and let the respondents understand that the research was purely for academic purposes. The respondents who did not clearly understand the topic under study were briefed on the same to ensure they were able to give accurate responses.

## 5.6 Areas for Further Research

The study's findings identified a number of areas that needed more investigation; to see whether the findings hold true in other sub-counties, a comparable study must be conducted. Examining the diverse control mechanisms used by distinct Saccos was necessary. Establishing the best possible framework for managing the internal operations was also necessary.

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# APPENDICES

## Appendix I: INTRODUCTION

Dear Sir/Madam

I am **Fauzi Yahya**, a student at the Open University of Tanzania pursuing a Master’s Degree in Business Administration specializing in Accounting and Auditing. As a compulsory requirement, I am expected to carry out a research on effect of Internal Controls on Financial Performance of Sacco in Tanzania. This will assist organizations realize the importance of leadership development and how this can contribute organizational success.I humbly request that you spare a few minutes of your schedule to complete the attached questionnaire. The questions seek your opinions regarding your organization’s internal controls and financial performance. There is no right or wrong answers; I only need your honest opinion. Your anonymity is assured and the information you will provide will remain confidential. Thank you for your participation in this study. Much appreciation for your cooperation and contribution in this study.

## Appendix II: Questionnaire

You are invited to participate in the above-mentioned research project. The survey should only take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will be purely used for academic purpose.

1. Respondent’s Gender

i. Male ( )

ii. Female ( )

2. Respondents Age

Below 18 years ( )

19-23 years ( )

24-28 years ( )

29-32 years ( )

Above 32 years ( )

3. Respondent’s Level of Educational

|  |  |  |  |
| --- | --- | --- | --- |
| i)  ii | Certificate  Diploma | **[** | **]** |
| iii) | Undergraduate degree | **[** | **]** |
| iv) Master’s degree | | **[** | **]** |
| 4. Time spent in the bank | | | |
| i) | Less than 6 months | **[** | **]** |
| ii) | 6 months-1 year | **[** | **]** |
| iii) 1-2 years | | **[** | **]** |
| iv) | 2-3 years | **[** | **]** |
| v) | 3-4 years | **[** | **]** |
| vi) | More than 4 years | **[** | **]** |

1. How frequent does your Sacco bank review its internal control systems?

|  |  |  |  |
| --- | --- | --- | --- |
| i) | After 5 years | **[** | **]** |
| ii) | Annually | **[** | **]** |
| iii) | Half-yearly | **[** | **]** |
| iv) | When need arises | **[** | **]** |

1. In your opinion, does your bank’s system of internal controls sufficiently and effectively contribute to revenue generation? How does your role support it?

..........................................................................................................................................

1. i) Are the systems of internal controls referred to in 4 above functioning as they are intended to?
   1. Yes ( )
   2. No ( )

ii) Explain…………………………………………………………………

1. How would you generally rate the internal control system in your organization in relation to

|  |  |  |  |
| --- | --- | --- | --- |
| revenue generation? | | | |
| a) | Very ineffective | ( | ) |
| b) | Ineffective | ( | ) |
| c) | Uncertain | ( | ) |
| d) | Effective | ( | ) |
| e) | Very effective | ( | ) |

# SECTION B: INTERNAL CONTROLS

1. Please rank the following statements in each area of internal control system indicating the extent to which each is applicable in your organization. Use a five point Likert scale where 1 = strongly disagree and 5= strongly agree.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Communication** | **1** | **2** | **3** | **4** | **5** |
| i) Any omissions detected is communicated to the right party |  |  |  |  |  |
| ii)All data communicated is captured well |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| iii)There is clear flow of information in the organization |  |  |  |  |  |
| iv)The system Implementation process is well communicated |  |  |  |  |  |
|  | | | | | |
| **RISK ASSESSMENT** | **1** | **2** | **3** | **4** | **5** |
| i) There is a risk identification policy |  |  |  |  |  |
| ii) There is a risk analysis policy |  |  |  |  |  |
| iii) There is a risk management department in my organization |  |  |  |  |  |
|  | | | | | |
| **CONTROL ACTIVITIES** | **1** | **2** | **3** | **4** | **5** |
| i) There are policies governing the control systems |  |  |  |  |  |
| ii) Reviews on the system is regularly done |  |  |  |  |  |
| iii) Physical monitoring on the systems is regularly done |  |  |  |  |  |
| iv) Information is processed efficiently |  |  |  |  |  |
| v) Duties are well separated as per the roles |  |  |  |  |  |
|  |  |  |  |  |  |
| **MONITORING** | **1** | **2** | **3** | **4** | **5** |
| i) Evaluations of the quality of internal controls is done on a regular basis. |  |  |  |  |  |
| ii) Internal audit is done on regular intervals |  |  |  |  |  |
| iii)Feedback reports are given regularly |  |  |  |  |  |

# SECTION C: FINANCIAL PERFORMANCE

Kindly provide information on your Sacco for the period of Five (5) years (2016- 2020).

1. What was the total Capital expenditure for the period 2016-2020? Total Cost of acquisitions.

Total Proceeds from disposal.

1. What was the total value of purchases of goods, materials and other services over this period?
2. What is the approximate value of buildings, machinery & equipment? Total value of owned assets

Total value of leased buildings

What was the total profit over the period?

**Appendix III: List of Sacco in Dar es salaam**

1. Sayari Sacco Society Ltd
2. Kibangu Catholic church Saccos Ltd
3. Kimara Catholic Church Saccos Ltd
4. Ngome Saccos Ltd
5. WAT Saccos Ltd
6. Walimu Saccos Ltd
7. TRA Saccos Ltd
8. TPA Saccos Ltd
9. Kimara Lutheran Saccos Ltd
10. Mbezi Luis Lutheran Church Saccos Ltd
11. Wanama Saccos Ltd
12. Mapambazuko Saccos Ltd
13. Chai Sacco Society Ltd
14. TANESCO Saccos Ltd
15. URA Saccos Ltd
16. Ukulima Sacco Society Ltd
17. Jamii Sacco Society Ltd
18. Kenya Police Sacco
19. Winas Sacco Society Ltd
20. Meru Central Sacco Society Ltd
21. Milimani Sacco Society Ltd
22. Afya Sacco Society Ltd
23. Maua Methodist Sacco Society Ltd
24. Harambee Saccos