

**INTERNAL CONTROLS AND FINANCIAL PERFORMANCE OF SAVINGS AND  
CREDIT COOPERATIVE ORGANISATIONS**

**A CASE OF SOUTH BUGANDA TEACHERS' SAVINGS AND CREDIT  
COOPERATIVE SOCIETY – MASAKA**

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## **DEDICATION**

I dedicate this report to my Family more so my Mum who sacrificed everything towards my academics, Brother Ddumba Matovu Pius, my fellow students, all those who sacrificed something to see that I reach this far, and lastly my dear friends Nakalyango Winfred and Nassuuna Gorreth, may the Almighty God reward you abundantly and may the Almighty give my Mum eternal life.

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## **ABSTRACT**

The main purpose of the study was to find out the effect of internal controls on financial performance of SACCOs. The study was carried out in south Buganda Teachers' SACCO. The objectives of the study were; to find out the effect of internal controls on market share growth in SACCOs, to assess the effect of internal controls on the investment growth in SACCOs, and to assess the challenges faced in employing internal controls in SACCOs.

In order to come-up with satisfying results, the study considered a SACCO with a study population of 24 respondents. Random sampling as well as the use of questionnaires was the methods used in getting views of the respondents as far as the study objectives were concerned. The questionnaires were revised first to see that they carry only questions that would give the respondents a clear view on what was being asked. Data received was being coded, entered, edited and then used for final report.

It was revealed that there is a big effect if internal controls on the financial performance of SACCOs. This is based on the investment growth, market share growth of the SACCO specifically considering South Buganda Teachers' SACCO. Due to the challenges faced like fraud, poor risk assessment and management, among others; there is still a need to address these challenges in order to attain a stable positive financial performance of SACCOs. More still, depending on the findings; it is discovered that there is still a need to educate the employees about the internal controls in place to make sure that they very well make sure that they act in line with the guidelines and rules of the institution to see that the intended financial performance is attained.

# **CHAPTER ONE**

## **GENERAL INTRODUCTION**

### **1.1 Introduction**

This research focuses on the role of internal controls on financial performance of SACCOs. This chapter entails the background of the study, problem statement, purpose of the study, objectives of the study, research questions, scope of the study, the significance of the study and lastly the conceptual framework.

### **1.2 Background of the Study**

#### **1.2.1 Background of Internal Controls on SACCOs Globally.**

Internal control was first defined in 1949, by the American Institute of Certified Public Accountants (AICPA, 2013) as the process designed, implemented, and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives concerning reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

According to (AICPA, 2013), Internal control is a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Achievement of the organization's objectives is based on a good foundation of an internal control system. The reasons for the need of such intact internal control systems lie in the agency theory and risk management. Jensen and Meckling (1976) investigated that demand for control mainly derives from the occurrence of agency costs which arise whenever an outside investor exercises control over an organization in a form different from that of a manager. The investor takes the role of the principal, whereas the manager can be seen as the agent. Conflicting relationships between principals and agents generate these costs, and can only be reduced by monitoring and bonding mechanisms through tying managers to organizational performance. Treba (2003) explained that weaknesses in internal control systems (control over the payroll, over expenditure commitments, and over procurement processes) lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money will be attained in public spending. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed that

the absence of internal controls or the presence of weak internal controls is the primary cause of many cases of fraudulent company financial reporting.

Notable cases include Enron and World Com in the USA, Parmalat in Europe and Chuo Aoyama in Asia. In South Africa, accounting scandals have been recorded in JCI and Rand-gold and Exploration companies. In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating company's profits for some years before the company's foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making.

These executives are legally and morally obliged to produce honest, reliable, accurate, and informative corporate financial reports periodically (Hayes et al., 2005).

### **1.2.2 Background of the Study on Continental Perspective**

According to Kiaritha (2015), African Saccos have risen significantly in recent years, with at least 7% of the African population adhering to one. In spite of their success, the Saccos came across obstacles such as inadequate presentation of people in society. According to Pollet (2009), as cited in (Kiaritha, 2015), there is a split of society into classes as a result of economic capacities, which acts as a barrier to further expansion. However, by 2008, Sacco savings in Sub-Saharan Africa had grown by 31.9 percent on average, a slower rate than in previous years. Credits were given out at a rate of 12 percent on average, a lower rate than in previous years (WOCCU, 2009) Credits given to Saccos, for example, grew by 35.3 percent in 2007, whereas they increased by 21.2 percent in 2006. In Kenya, Saccos are established under the Cooperative Societies Act (Cap. 490). Currently SACCOs are the leading sources of credit to members for socio-economic development. In early 1908 the first cooperative was established in Kenya in Kipkelion area of the present Kericho County, much later in 1944 the colonial officers allowed Africans to form and join cooperative societies (Chimkono, Muturi, & Njeru, 2016). A report released by SASRA (2013), showed that at least in every family in Kenya one or two members directly or indirectly depend on DT-SACCO for livelihood and survival. Initially cooperative movement was predominantly oriented to agriculture. However, currently there is a lot of diversifications in the sector and the non-agricultural based cooperatives have joined and

invested in areas such as building and construction, transport sector such as Public Service Vehicles (PSV) (SASRA, 2013)

### **1.2.3 Background of Internal controls on SACCOs in Uganda**

Internal control ensures separation of duties at every stage of activities and clearly indicates who does what and who authorizes each process of operations conducted in the SACCO. As colonial rule ended, SACCOs were established across Africa, keeping the majority of the population out of the formal economy. SACCOs experienced expansion as people were urged to produce cash crops to meet the demands of the growing market. According to SACCOs, today's rural and distant disadvantaged are financially assisted. The rural poor are consequently left without additional sources of financial services, leading to extreme poverty, as a result of their poor financial management and eventual bankruptcy. Saccos nowadays adhere to set principles, regulations, and goals in order to change the world. Companies are under pressure to meet company goals as well as those of other stakeholders, including the government, the public, and their customers (Argandoa, 2019).

Uganda's SACCOs institutions are performing better, in part because their clients are more knowledgeable and aware of what to anticipate from them in terms of needs, wants, and expectations. To provide high-quality financial services, SACCOs companies have faced intense rivalry, which is a significant source of competitive advantage. These are financial institutions that offer banks similar, if not identical, services, and the most of them were founded long before the majority of commercial banks, but their performance is lacking when compared to other businesses in the same sector (Gathurithu, 2011). SACCOs are looking for strategies to improve operational financial performance and profitability. SACCOs first struggle to meet their operating expenses since they base their service offerings on educated guesses (Nuwagaba, 2012). The study also makes notice of how the financial success of SACCOs, particularly those operating in rural regions, is impacted by the lack of market research and scientific procedures for pricing and costing. These studies, however, could not offer conclusive proof of the role that staff training plays in forecasting SACCOs' financial performance. While the government and other donor organizations have contributed to the reduction of rural poverty through SACCOs, member and staff attitude development has frequently had a negative impact on the financial success of SACCOs. Several SACCOs follow credit and cash management policies.

#### **1.2.4 Background of South Buganda Teachers' SACCO**

The organization started under the name of Masaka-based teachers' savings and credit society. It was formed in 1962 by a group of primary teachers as Masaka teachers' thrift with membership of about 80 people after the teachers realizing the need to organize themselves into a savings group since this was an era of cooperatives and was incorporated in 1963 under the co-operative statute and received a certificate number 1961 after being registered on the 16<sup>th</sup> of January, 1963 by the commissioner of co-operatives. In the late 1970's, the organization faced several challenges like fire which destroyed the SACCO documents since this was Amin's regime and Masaka was badly affected. There were also mismanagement issues in 1980's and 90's when top leaders personalized the SACCO and opened up projects like maize mill and a hardware shop using teachers' money. This nearly killed the SACCO. In 2000, the SACCO almost collapsed since membership was waning and liquidity was minimal. In 2002, management changed the SACCO's name to South Buganda Teachers' Savings and Credit Society Limited with an objective of making it inclusive of the new districts of Ssembabule and Rakai had been carved out of Masaka district. In the process, new branches were established at Kyotera and Mateete to serve these areas.

#### **1.2.5 Financial Services and Internal Controls**

Internal controls are critical for success of an institution as well as the services offered to the customers or clients who approach the institution for its services. This will always call for standard internal controls by the management of the SACCOs for easy achievement of optimal efficiency and effectiveness at the workplace (COSO, 1992; Cohn, 2000; INTOSAI, 2004; Cobit, 2007; TOLIATIENICE, 2002; Coco, 1995) and C.J Buck, J.B Breuker (2008). If we consider a financial report raised by the institution accountant in the Annual General Meeting held on 29/04/2023, Miss Kayaga Annie pointed out that due to availability of internal control measures in place where no cash is released minus a requisition approved by the manager, there has been easy control of SACCO finances which allows the SACCO to serve its members well financially. And due to some controls in place, some of the bad debts have been recovered where an estimate recovery managed to shoot 20% of the projected 4,000,000/= in financial year 2022, and the profit margin came as 110,103,357/=, this helps the financial services to be uplifted in the

institution. This brings it out well that for any organization without any financial internal control, its performance can be bad financially.

### **1.3 Problem statement**

We cannot appreciate it that many SACCOs employ different internal controls to try fixing and controlling financial risks, but there still exist some problems in finances of such organizations that limit their planned targets and services. This can be evidenced from the report raises by the SACCO treasurer Madam Nazziwa Sarah that from the projected expenditures of financial year 2022 of 435,374,000/=, the actual expenditure was 317,927,837/=. And the projection bad debts recovery of 4,000,000; only 800,000/= was recovered. This implies that there is a lot of weaknesses in the internal control on how to control debts which can lead to poor performance of the institution because many clients can fail to play their part and the expenditure keep growing. And in some SACCOs like SBT SACCO, some expenditure is made without actual figures which sometimes may affect the positive financial performance. This brings out the need for standing internal control for risk management for SACCOs in order to attain and generate profits consistently and sustainably. This brings a big question that needed research on how the available internal controls have enhanced financial performance in this SBT SACCO. The main idea is that it is human ability and commitment with these internal controls properly implemented which ultimately differentiate successful institutions that prosper from those that fail (Storey, 20016).

### **1.4 Purpose of the study**

The purpose was to find out the relationship between internal controls and financial performance of SACCOs.

### **1.5 General Objectives of the Study**

The overall general objective of the Study was to find out the relationship between internal controls and financial performance of SACCOs.



### 1.5.1 Specific Objectives of the Study

- To find out the effect of internal controls on market share growth in SACCOs.
- To assess the effect of internal controls on the investment growth in SACCOs.
- To assess the challenges faced in employing internal controls in SACCOs.

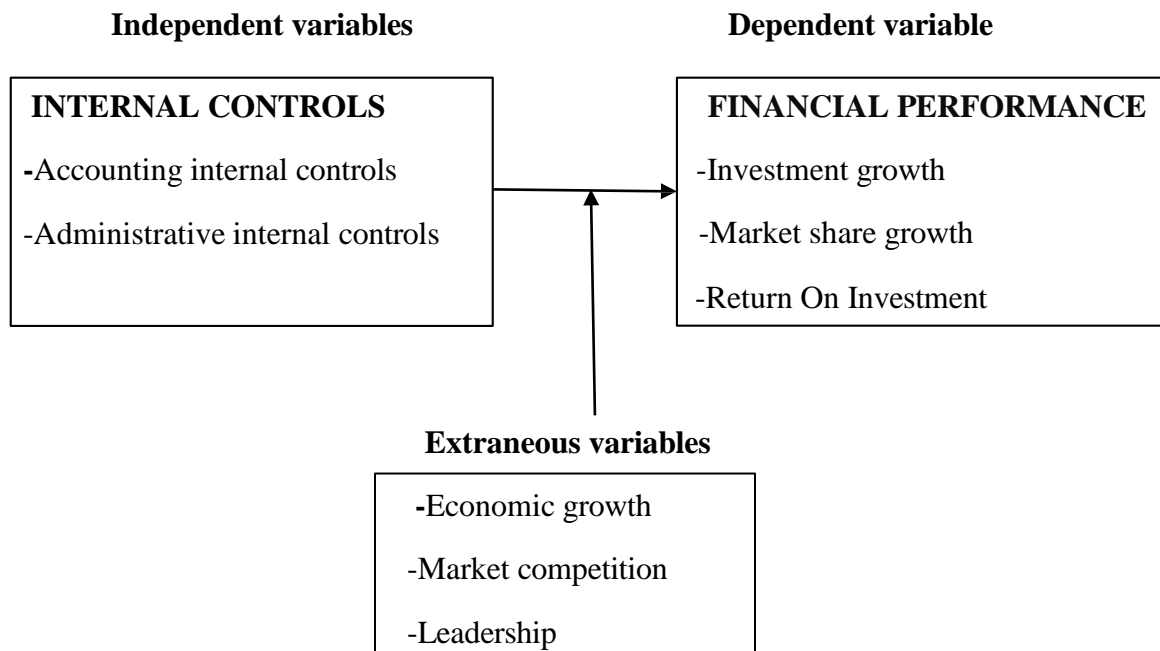
### 1.6 Study Questions of the Study

- What is the effect of internal control on market share growth in SACCOs?
- What is the effect of internal control on the investment growth in SACCOs?
- What are the challenges faced in employing internal controls in SACCOs?

### 1.7 Conceptual Framework

Financial institutions like SBT SACCO always put in place internal controls so that they can gain a better performance and improve or develop their equity. Since financial internal controls vary from SACCO to another, in respect to this study, I will consider only accounting and administrative internal controls considering market share growth, investment growth and challenges faced.

**Figure i; Conceptual framework**



**SOURCE:** Developed and modified by the researcher using the knowledge of Bedard, J (2006).

### **1.7.1 Description of the Conceptual Framework**

As seen in Figure (i) above, the independent variables that is administrative and accounting internal controls; shows how these controls help in control of assets, risk assessment, accuracy of records (financial), whereby for better implementation there can be better financial progress and performance of SACCOs that is the Dependent variables consisting of investment growth, better financial performance and market share growth.

## **1.8 Scope of the Study**

### **1.8.1 Time Scope**

The research study was conducted in a period of one year in order to allow time for data collection and coming up with a better conclusion/report which can be reliable and dependable in decision making.

### **1.8.2 Geographical Scope**

The research study took place in South Buganda Teachers' SACCO in Masaka City considering the management of the SACCO from the three branches that is Head office in Masaka, and branches that is Kyotera and Mateete-Ssembabule.

## **1.9 Justification of the Study**

All in all, the research study targeted on knowing the role of internal controls on financial performance of SACCOs and in this case considering South Buganda Teachers' SACCO and this study was to develop good practitioners and reliable management in any SACCO. It gave a large insight to the different stake holders and managements of the SACCO to imitate on the role that the internal controls have in helping to boost the financial performance of these SACCOs basing and the guidance and recommendations given by the researcher.

## **1.10 Significance of the Study**

As the intentions of the researcher are, this study had a big positive significance that is to say, it helped the SACCO, and other related stake holders to;

- Get awareness about the possible loopholes in the financial internal controls in the SBT SACCO
- Get enough awareness and knowledge about the different types of financial internal controls that are employed by SACCOs.
- Get enough knowledge on how internal controls can help the management in getting the higher market share and perform better in attainment of organizational goals.

### **1.11 Conclusion**

As brought out well by the researcher, this chapter drew a good picture on the research study while giving the background, the study problem where we also have seen the objectives of the study to give a clear guideline to the study. It also consisted other sub-chapters like scope and conceptual framework all guiding a researcher on how to conduct the research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter is entirely aiming at the study of the work or literature already developed that go in line with the topic in question considering SACCOs.

#### **2.1 Financial internal controls and control components employed by SACCOs in improving financial performance.**

These internal controls will consist of accounting and administrative employed by SBT SACCO. These controls are considered according to Coso 1998; where he came up with two complementary forms that is accounting and management.

##### **2.1.1 Financial Internal Controls**

Internal control can be defined as the process affected by the organization structure, work and authority flows, people and management information systems designed to help the institution accomplish specific goals and objectives, Anthony; 2004. According to him, it acts as a way by which the SACCOs' resources are directed, monitored and measured and put it that there is always a need to make sure that procedures will be performed as planned and intended by the management.

##### **2.1.1.1 Accounting Internal Controls**

Accounting controls were viewed as safeguards to control assets and ensure accuracy of financial records and according to Anthony (2004) and Coso (1999), five internal control components were developed and these must exist in a SACCO so as to conclude that internal control is fully effective, these are; control activities, monitoring, control environment, information and communication, and risk communication.

##### **2.1.1.2 Administrative Internal Controls**

These are policies designed by the administration of any SACCO in order to ensure perfect financial performance and protection of institutional assets from any kind of mishandling. They

can as well be a process of different components which are the risk assessment, control environment, control activities, monitoring and communication; this is according to Ishmgisa (2000). He went ahead to note it that all these components influence all aspects of a SACCO's activities whether administrative, financial or accounting. Ishmgisa put it that there is a need for effective functioning of each of the components for the SACCO to get the purpose for which it was established.

A Scholar Cox (2000) in his bureaucratic theory states that effective controls require that all responsibilities are associated with adequate authority and that duties of all personnel are defined as to their specific responsibilities.

ACCA (2005) highlights those internal controls focuses on establishing responsibilities through delegation of power and authority. Bedeian (1995), said that it plays an important role in preventing any kind of fraud and safeguarding institutional resources physically like properties like trademarks, machinery and intangible such as reputation. According to Davidson (2005) observed that at the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of the operational or strategic goals and compliance with laws and regulations.

Frank (1989), put it that there are a set of three kinds of controls that an institution internal audit function should recognize that is preventive, detective and authorization controls, whereby each has a special impact. Detective controls detect fraud or possible errors not controlled by the SACCO, helping to eliminate bad acts in an organization, where we consider kinds of reports on how controls have been ignored. They help to reveal a loss incurred like big payments being made without authorization. They can consider internal checks, analysis and audits, extra. Preventive controls prevent risks from happening like recruiting right staff and orienting as well as training them, Authorization controls prevents fraudulent transactions from happening.

According to De Paula et al (1990); internal controls require that business assets like plant and machinery, stock of any kind, cash both at hand and bank, extra, should be kept safe and assets should be limited to authorized staff and all security measures and procedures put in place are always known as physical controls and these may include security cameras, alarm systems, security lights, extra.

## **2.1.2 Components of Internal Controls**

### **2.1.2.1 Monitoring and Evaluation**

Monitoring is one of the key components of the internal control framework whereby it is carried out periodically where evaluations are done to verify that each of the five components of internal control including the controls that affect the principles within each component, are present and functioning. This is always done to ensure quality of the system performance overtime.

According to Walker, Shenkir and Buton (2003), monitoring processes are used to assess the quality of internal control performance overtime. Monitoring is the assessment of internal control performance overtime whereby it is fulfilled by employed monitoring activities and by separate evaluations of internal control such as self-evaluations, peer reviews and internal audits. When it comes to Anthony (2004), the purpose of monitoring is always to determine whether internal control is adequately designed, properly executed, and effective.

NADC (1996) put it that monitoring is the continuous periodic surveillance of the implementation of a project and he went ahead to advise that not only the physical progress of the project should be monitored but also the impact of the project. He emphasized that there should be one method of monitoring used across the whole SACCO or project so as to enhance the single and solid basis of analyzing trends and defining possible strategies whereby at the end it will be helpful when there is a change of personnel, management, as well as policy makers. NADC brought it clearly that the progress report should always be made including the changes in external factors which will provide major information input to the review.

Where monitoring is, this will always bring a sense of accountability for the input or employed internal control in a SACCO. In this case, the management will be aiming at efficiency.

According to Green (2003), accountability refers to an organization's capacity to demonstrate, answer or explain its actions. Another thing that can define well accountability is the availability and application of sanctions on appropriate actions and behavior uncovered through answerability whereby, answerability without sanctions is generally considered to be weak accountability and sanctions without enforcement significantly diminish accountability (Blinkerhoff 2003).

Considering the Institute of Corporate Governance in Uganda (2004), accountability is a concept in ethics and governance with several meanings whereby it considers responsibility, answerability, liability, and other terms with the expectation of account-giving to the institution. This has been arranged to all the matters and issues concerning the public sector, non-profit and private institutions. Further, accountability is the appreciation and assumption of responsibility for products, decisions, actions and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report explain and answer considering different consequences. This means that a superior like senior manager cannot in any way pass over power and responsibility to another person but can only delegate authority to a subordinated and then hold that subordinated accountable for the performance and the bad part of it is that managers can continuously frustrate employees by not holding them accountable yet holding employees accountable gives a chance to these employees to be aware of the satisfaction of achieving a goal and performing towards standards.

#### **2.1.2.2 Control environment**

Control environment is always the foundation of for all other components of the organization or institution and it sets the rhythm for that institution, influencing the consciousness of its people (Anthony, 2004).

According to Lower (1998), an effective control environment is where competent and reliable people understand their responsibilities, the limits to their authority, being knowledgeable, mindful and committed to doing what is right and doing or performing rightly.

According to Institute of Auditors, the control environment is taken as the one that dictates upon organizational members of feeling of consciousness that their continued stay at the SACCO is assured by demonstration of their expected level of competence as well as their comprehension of authority and responsibility limits.

If we consider Okwach (2000), control environment is an enabler of execution of tasks by institutional members as set by the board members and departmental heads through the attitudes and actions that encourage the highest level of integrity, operating style, appropriate leadership philosophy, and personal professional standards thereby leading to reasonable compliance and

operational sufficiency levels. According to Spillane and Reimer (2000), control environment exists when the responsibility to execute assigned task is not directly by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively declared.

### **2.1.2.3 Information Flow**

According to ACCA (2005), information flow is a process through which the SACCO members receive the right information from the right source at the right time considering both the formal and informal channels employed by that SACCO. Information flow can be largely explained as the movement of information from the right source to the right person at the right time in any given SACCO. If information happens to move from a right source to a wrong person, there control can fail and secrecy in accounting and in a SACCO at large cannot be observed. ACCA considers informal channels to comprising of downward, upward and horizontal forms. The informal channels comprise majority grapevine. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner and further it must be reliable, complete, accurate, understandable, specific and directed to the right people and relevant to the targeted user.

Suzanne and Naidoo (2005) put it that the top-down channel mostly occurs in an impersonal nature leading to information flow ambiguity, clear message delivery failure to subordinates contrary to what is intended by management and the bottom-up channel, supplements the top down to enable management attain desired organizational effectiveness. Sudha (1999) noted that SACCOs using the top-down channels tend to suffer information gaps, misunderstandings and consequently performance deficiencies.

According to Sudha (1999), lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral information flow is the communication between different people at the same level and this means information flow between colleagues and departments. Sudha emphasized that poor lateral communication leads to misleading messages and confusion which affects employees and the entire institutional performance. This is where Byekwaso (2000) argued that there is a need for a two-way form of



information flow to achieve the intended organizational performance because both information flows facilitate the implementation of this information by internal control objectives.

Chen (2004); stated that information systems provide reports containing operational, financial, and compliance related information that make it possible to run and control an organization/institution. However, information and communication are essential to effecting control information about an organization's plans, control environment, risks, control activities and performance must be communicated up down and across an organization (Wales 2005). Wales put it that reliable and relevant information from both internal and external sources must be identified, captured, processed and communicated to people in need of it in a form and timeframe which is useful.

#### **2.1.2.4 Control activities**

According to Craig (1999), control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Dublin (1999) considers control activities as activities that provide evidence that a loss has occurred. They include analysis, reconciliations and reviews. He emphasized the importance of authorizations in the form of expenditures as a result of an approved budget as a control measure. Approval of budget expenditure should involve justification of the transaction and review of source documents (Van Horne, 2002).

Van Horne went ahead to categorize activities into preventive and detective whereby preventive activities are the managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring. They consist of proper authorization, segregation of duties, sufficient documentation, and physical control of assets. To be effective enough, control activities must be appropriate, reasonable, and directly relate to the control objectives.

According to Pandey (1998), COSO (1998), and Anthony (2004); control activities comprise of the policies and procedures that help to ensure that management directives are carried out. They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage and reduce risks and for managers are responsible for identifying financial and compliance risks for their operations and also have a line responsibility for

implementing, designing and monitoring their internal control systems. This was added by Bazzoli et al (2000)

In this case, risk assessment is the process of identifying and analyzing of possible risks to the attainment of the institutional goals and determining the appropriate response to those risks COSO (2004). He noted out that it includes risk identification from both the internal and external factors of the institution and activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks of the institution. These risks are responded to by; transfer, treatment, termination, or tolerance.

According to Cochran (2000), identification of risks as important for the achievement of the organizational/institutional objectives because an effective internal control system irrespective of how well it is conceived or operated, can provide only reasonable not absolute assurance to management about the obtaining of an institutional goals and objectives. He emphasized that managers should determine what can go wrong, what areas have the most risk, which is in position to have a risk, and the assets at risk. So, the risks that may be considered are; public scandal, misuse of revenue, and the use of unreliable information for decision making. Therefore, the internal control can give management information about the entity's progress or lack of it towards achievement of objectives of objectives but cannot change an inherently bad manager into a good one.

## **2.2 Challenges Faced by SACCOs in Implementing Internal Controls.**

There are a number of challenges or difficulties faced by SACCOs like South Buganda Teachers' SACCO, while trying to implement internal controls in a way of trying to implement the financial performance at all times. Many were brought out considering those faced by this SACCO because many SACCOs have different roles and different ways on how they get and process different information and how they use it.

### **2.2.1 Poor cash asset collection means**

Most SACCOs in the economy have dependable internal controls systems on cash collection which has often accounted for poor financial management Gibbs (1997). With the many studies carried out on internal controls in the private sector, there has been the same in the public sector

as well. Some SACCOs do not employ cash collection methods from their ways how they manage their institutions which bring a big problem yet separation of these two would be very necessary where internal controls would be indented well from the ways how they employ the management ways.

### **2.2.2 Poor Risk Assessment and Management**

As we saw that with components of control, we have the control activities, risk assessment, information, control environment and monitoring; this implies that risk assessment must be managed well so as to ensure better control policies. So, this has been a big challenge to SACCOs. I found out that the presence of a risk will always call for relevant and effective internal control in order to help the organization or institution attain its goals at a minimal cost of losses. San Jose stated that communicating information resulting from the exercise of internal controls keeps the key personnel and management informed of potential problems.

### **2.2.3 Fraud in the SACCOs**

According to Roger 2010, Eron came up with a report about financial behavior indicating fraud actions and engaged in unethical accounting by misrepresenting their earnings and hiding liabilities and debts. These bring a big challenge in the struggle for SACCOs to implement internal controls. But according to Frank (1998), there are several types of controls an institution's internal entity should employ and these are preventive, detective and authorization controls. Preventive help to prevent risks from occurring like taking segregate actions in the institution; detective controls which detect fraud and errors that has not been prevented, and authorization prevent fraudulent or errors from happening. They can as well be used to bring it out that internal controls have not been used in the SACCO by giving evidence that a loss has occurred but do not prevent loss from happening like some expenditures done in the SACCO without approval from the manager as it should be. We consider the internal checks, analysis and audits, reconciliatory supervision, extra as the internal controls that would be employed before.

### **2.2.4 Report Material Weaknesses**

These may include the SACCO internal reporting control methods which may course misstatement to occur. According to Juan Mao and Zhongxia 27 April 2022, only a small

proportion of companies that announce restatements disclose existing internal control material weaknesses over financial statements reporting during misstatements periods. The number of ICMWs disclosed were negatively related to misstatement duration. The negative association between the ICMW disclosure frequency and misstatement duration is more salient when restatements are negative (Juan, 2022).

### **2.2.5 High Maintenance costs**

In order to ensure the required and acceptable standards and level of services provided in the SACCO continuously at a lower cost, maintaining the management organization must be observed by any SACCO.

According to Merina Sartena July 20, 2021; testing and maintaining internal controls is an essential skill required for an internal auditor and any SACCO, but most of the SACCO and auditors miss this significant aspect. She added that the benefit of the internal control must outweigh the potential loss from the risk mitigates. She considered the costs of design and testing the effectiveness as well as the costs in maintaining these internal control systems put in place.

Every internal control has a cost to the organization whereby it has to be designed, implemented, operated, tested and then maintained (Merina S. 2021).

## **2.3 Effects of Internal Controls on SACCOs**

### **2.3.1 Market Share Growth**

Market share growth is affected by internal controls in many ways of which efficient allocation of funds, performance and expansion of services, better knowledge of financial services, minimization of costs, easy transfer of funds; cannot be left out.

According to Levine 1997, mobilization of funds in form of savings entails obtaining capital from various savers then channels it to investment, by employing internal controls. This is costly as it involves overcoming the costs associated with the collection of savings from individuals, and overcoming the informational asymmetries associated with ensuring security to savers as they give up control of their savings. Due to the high transaction costs and information costs associated with mobilizing savings, financial markets may emerge to overcome this problem by

creating bilateral agreements between SACCOs and borrowers of capital, so the financial markets that ease the transfer of funds from savers to other people who may be in need of capital can strongly affect economic growth.

As the market develop and deregulation takes place, size becomes a somewhat limited benchmark for competitiveness. Investors will always gain a better knowledge of financial products enabling them to be better equipped in making an informed choice. As for the financial market expands and markets grow, investors will have a wider choice of financial products. Therefore, the competition will need to be expanded to allow for the complexity of the market place.

Rosenberg, Gonzalez and Nairan (2009) argue that over the last two decades, SACCOs that make microloans to low-income borrowers to developing and transition economies have focused increasingly on making their lending operations financially sustainable by charging interest rates that are high enough to cover all the costs in financial. SACCOs like south Buganda Teacher's SACCO that also deal in loans, it has been found out through this study that it puts much emphasis on this. By doing this, the institution is trying to make sure that the reputation and expansion of its services to its members is kept high and try to address the problem of administrative costs that are inevitably higher for small micro lending than for normal bank lending; which is for larger SACCOs.

For SACCOs like SBT SACCO, when it comes to efficient allocation of funds, Bencivenga and B. Smith (1991) argue that financial arrangements that improve corporate control tend to improve the allocation of funds thus encouraging growth of market for the SACCO. According to Stiglitz and Andrew (1981), the absence of financial agreements that ensure an efficient corporate control, may impede transfer or movement of savings in SACCOs from various agents which might impair flowing to profitable firms. This implies that when there are laws protecting the interest of investors thus ensuring that the managers act in good faith and pursue investment that are value maximizing activities, funds tend to be allocated efficiently, this improves the market share of the institution since there is always trust by the members of the SACCO that their funds are handled in a very good manner.

### **2.3.2 Investment Growth**

According to Levine and Zervos 1998, financial development channels funds from the savers to investors, and allocated this saving to high return investment thus leading to efficient allocation of capital, this ensures financial development of SACCO to ensure investment growth. The institutional environment, in which any given SACCO operates, is an important factor of financial development and it directly impacts on its economic growth at all times.

With promotion of specialization by use of internal controls, financial internal controls that reduce transaction costs and open doors to specialization promote techno-logical innovation and growth. According to Levine 1992, the relationship between economic growth, easing of transactions, specialization and innovation was brought forward by Smith's (1776) *Wealth of Nations*, where Smith argued that with specialization, economies can achieve better productivity growth based on comparative advantage. Adam Smith shows that money as a medium of exchange plays a great role in lowering transaction costs to the exchange of goods for goods. By this, SACCOs through financial markets, promote specialization hence encouraging productivity gains and exchange of goods and services which results into economic growth through improved investment.

Through improved resource allocation, mobilization of savings entails obtaining and accumulating capital from various savers then channels it to investment. This process is costly as it involves overcoming the costs associated with the collection of savings from individuals, and overcoming the informational asymmetries associated with ensuring security to savers as they give up control of their saving (Levine 1997). Because of the high transaction and information costs associated with mobilizing savings, financial markets may emerge to overcome this problem by crating bilateral agreements between SACCOs and investors of funds. As well, an efficient mobilization of savings by use of internal controls can improve resource allocation and boost technological innovation thereby encouraging growth.

Enhancing technological advancement. Some economists think that financial internal controls help in efficient mobilization of savings, efficient distribution of capital as well as easing the risk management. According to Schumpeter 1912, well-functioning SACCOs provide funds to those entrepreneurs with good investment prospectus, innovative products and efficient production

process, thus enhancing technological innovation which is an important component to economic growth.

### **2.3.3 Better financial management**

In SACCOS' set up, accounting processes should be done to completion by separate individuals. This is so important that the research into internal controls and external auditor's judgments has indicated that the assessment of separation of duties is a dominating factor in an auditor's evaluation of internal control structure (Ashton, 2004; Ashton and Brown, 1998; Hamilton and Wright, 2002). No single individual should have control over all phases of transactions; ideally the incompatible functional responsibilities of initiating transaction, custody of assets and record keeping should be a responsibility of separate individuals. Duties are considered incompatible if a single person can carry out and conceal errors in the course of day-to-day activities. Segregation of duties however faces challenges particularly in small MFI's since it requires adequate staff. Gramling et al. (2010) found that in 2008, a majority of smaller firms with material weaknesses in internal control reported one or more segregation of duties weaknesses. There could also be instances of collusion among staff in the system especially if the number is not big.

Through vouching, according to COSO (2004) vouching is a technical term, which refers to the inspection of documentary evidence supporting and substantiating a transaction, by an auditor. The officer vouching document should not only look at the details contained but also think about what might be missing from the document (Bonner, et al 2006). According to Johnson and Kaplan (2001) attaching support documents will enable the officer attending to the document satisfy himself that the process was authentic. It is after this assurance that the accounting document should advance to the next level of processing. All the support documents have reference numbers which should tally with the ones captured in the payment voucher. According to Turner 2007, for the vouching to produce expected results in deterring errors and fraud the officer involved should possess rich work experience and at the same time apply professional skills.

There is an important impact of authorization and approval of accounting transaction in the SACCO backed by these internal controls. Officers have variant responsibilities depending with

a particular SACCO and position held along the organization structure (Carmichael 1999). The responsibilities partaken in a particular level define the position occupied by the appropriate officer. SACCOs have given their officers different levels in terms of approving payments and advancing loans (Protiviti 2007). This system is based on the order of seniority of the officers such that senior officers approve cheques bearing bigger amounts relative to junior officers. There is a sealing for every position such that the holder of that particular position cannot approve cheques more than the sealing put (Wright 2002). This is an important control exercised by the SACCOs across the economy. It is destined to ensure objectivity in reviewing payments (COSO 2004). It ensures each of the officer's check the authenticity of the payment notwithstanding the fact that it has been attended by other signatories. It is hard for one officer to pass payment single handedly (COSO 2002). The agency theory, stewardship theory and management control theories are relevant to authorization and approval of accounting transactions and aspects surrounding it. It is a management control that delves other controls to ensure achievement of profitability.

Internal controls play a big role of internal auditing. External auditors report their findings to the shareholders in an AGM while internal auditors advise the management on the areas with weakness in the accounting system and internal controls used. Financial review entails accounting and financial transactions to determine if commitments, authorizations, receipt and disbursement of funds are properly and accurately recorded and reported (COSO 2004). This type of review determines if there are sufficient controls over cash and other assets and that there are adequate processes controls over the acquisition and use of resources.

## **2.4 Conclusion**

This chapter has focused much on the related literature as far as internal controls are concerned as employed by financial institutions and how better they affect the performance of these institutions. As seen, internal controls help and play a big role in the financial stability of SACCOs and their development in a way of helping to attain the company objectives in growing its market share, investment, as well as the positive financial management to be kept at its best.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter largely targeted the whole research process and how the data was obtained to come up with the final remark and dependable conclusion for further decision making. In this chapter we talk about the data collection methods, study population, sampling techniques used, tools used in the collection of data, area where the study was carried out, time frame of the study, extra.

#### **3.1 The Research design**

Both the qualitative and the quantitative techniques were used by the researcher as well as the survey technique in order to give the researcher good results. Survey was basically used because of the time availed that the study was to take short time. Qualitative approaches were research patterns with some assumptions; values that were integrated and quantitative approaches were basically used as they served a greater role that they provided more data to help in interconnection of financial and non-financial indicators which are integrated and processed to have meaningful information for management function and the entire enterprise.

#### **3.2 Research Area**

The study was carried from South Buganda Teachers' Savings and Credit Corporative Organization (SBT SACCO). This study area is found in Masaka City in the heart of the city, the area found in the south part of the country. This SBT SACCO handles all classes of people that are capable of having accounts as members of the organization. The study considered the branches found in Masaka city which is the main branch, the branches in Kyotera and that one in Mateete-Ssembabule District, in the current new district of Lwengo.

### 3.3 Study Population

The research considered the SACCO staff which is the employees of the SACCO that constituted a good number of populations to use in finding out the intended data for better conclusion. Two techniques were used that is the cluster and random sampling techniques to collect the data.

### 3.4 Determination of the Sample Size

The study used a population of 24 employees from the entire SACCO whereby the sample size was considered in the study to produce enough findings for the study.

**Table I: A table showing population of SBT SACCO**

No.	Category	Number of Employees
1	General Manager	1
2	Supervisors	3
3	Accountant	1
4	Assistant cashiers	6
5	Loans officers	6
6	Assistant administrators	6
7	Internal Auditor	1
<b>TOTAL</b>		<b>24</b>

### 3.5 Sampling Techniques and Procedure

#### 3.5.1 Random sampling

With this method, the research gave every employee equal chance of providing the information needed in the study and questions were being placed to the employees at a random selection basis where the questions were not directly targeting a given sample of employees.

### **3.5.2 Purposive Sampling**

Here the researcher used this method by selecting small groups or samples from the whole population of employees. This was considered where the data was to be got from a specific group like the loans section, the accounting section and the managing section.

### **3.6 Data Collection Methods**

The use of questionnaires that consisted several questions and optional answers to easier the question-and-answer exercise to the respondents and that would bring dependable data to the researcher, were used by the researcher. These were used throughout the whole SACCO. There was also the use of observation method that the researcher could directly observe what was being practiced in the SACCO to see what was being used and to come up with a clear comparison with the results from the questionnaire.

### **3.7 Validity and Reliability of Research Tools**

#### **3.7.1 Validity of Research Tools**

As a way of getting valid and reliable data for the study, the researcher gathered the data from the dependable source that is exactly the employees of the SACCO. Steps to see that compiling of the data were taken that is the pre-testing which was done in the institution. There was also thoroughly cross checking of the findings from the questionnaires to see whether they have the data needed by the researcher in the study.

#### **3.7.2 Reliability of Research Tools**

The questionnaires had questions that would bring relevant information required in the study and some corrections were made after eliminating the un-necessary areas and as well adding in more questions as far as the objectives are concerned. The questionnaires were dependable in a way that they had easy and understandable questions for respondents to answer which eliminated the problems that would be encountered by the respondents in interpreting and understanding the questions being answered.

### **3.8 Data Analysis**

Due to the fact that as time moves on and the day matures, many employees tend to get busy and attention tends to be minimal, the researcher had to go for morning hours before midday in order to get full attention for interviews and fruitful answers to the questions placed to the respondents. This data was sorted according to the area of consideration. It was coded, edited, tabulated and analyzed where frequencies, and percentages to find out the correct remark for the final research report; were used.

### **3.9 Ethical Consideration of the Study**

There was high respect to the SACCO rules and regulations as well as all guidelines from the management SBT SACCO. Assurance to the management was also made before the research to see that the answers to be obtained were to be kept confidential and to respect each and every employee of the institution in order not to disrupt their daily work for the institution and to see that their rights are respected during the time of the study.

### **3.10 Limitations of the Study**

The study was not such smooth to the researcher that there are some challenges faced which gave hard time to the researcher.

The management rule to the employees to keep the SACCO secrets at heart at all times; never allowed some employees to give the necessary information to some questions that they would reveal the SACCO secrets.

Since the research was being carried out during the working hours, some employees would allow less time to the study and this limited they would allow the study. And any kind of interruption would be seen as disturbing them since they hard to attend to the assigned duties to them.

Since the study to be conducted by a single researcher, this caused a financial challenge to him in a way that there was a need for some money for printing of the research tool that is the questionnaires, and for facilitation during the study.

And lastly, some answers had to be studied before considering them and due to the fact that some employees were less educated, some questions needed interpretation to them which brought out un-satisfying answers to the questions.

### **3.11 Conclusion**

The chapter has tried to bring out the entire research process on how it was to be handled considering the research tools, and all what was needed by the researcher for a successful research study. And due to the fact that we expected good outcome, we expected some challenges as highlighted in the chapter, but largely the process went on well.

## CHAPTER FOUR

### PRESENTATION AND DISCUSSION OF DATA FINDINGS

#### 4.0 Introduction

This study chapter presents the study findings and their presentations, the analysis and all the discussions basing on the study objectives which included; the effect of internal controls on market share growth in SACCOs, the effect internal controls on investment growth in SACCOs, and the challenges faced in employing internal controls in SACCOs.

These objectives served as a guideline in conducting research where the questions in the questionnaire were targeting the areas which would bring out dependable results to the study.

#### 4.1 Background Information of the Respondents.

In this section, data was collected in respect to respondent's information such as age, marital status, education level, department of work/placement, time spent in the SACCO, extra.

##### 4.1.1 Gender of the Respondents.

The gender of the respondents was considered to know the different sex of each and every respondent that participated in the study. And this is shown in the figure below.

**Table II: A table showing the gender of respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage %</b>
Male	9	38
Female	15	62
<b>Total</b>	<b>24</b>	<b>100</b>

**Source: Primary Data (2023)**

if we consider the data in the data above, we can see that during the study, 38% were male and 62% were female implying that the female was the majority in this SACCO considering those who participated in the study.

#### 4.1.2 Age of Respondents

This was considered by the researcher during the study to know the age of different respondents that participated in the study as shown in the table below.

**Table III. A table showing the age of respondents who participated in the study**

Age bracket	Frequency	Percentage%
18 – 25	4	17
26 – 35	14	58
36 – 45	5	21
46 and above years	1	4
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the data in figure iii above, respondents who took the high percentage were those in age brackets of 18-25 and 26-36years. It was revealed that most of the employees in SBT SACCO that participated in the study were in the age bracket of 26-35years implying that many were still in the age of being productive and energetic enough to work hard towards the objectives of the SACCO. And according to the data above, it was only one respondent in the age bracket of 46 and above years, and this was the manager who seemed to be in control of all the employees in the SACCO.

#### 4.1.3 Marital Status of the Respondents

**Table IV: A table showing the marital status of respondents**

Status	Frequency	Percentage%
Married	15	63
Not married	6	25
Divorced	2	8
Widowed	1	4
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the data above, many respondents were married with a percentage of 63%, followed by those who were not married and had never been in a legal relationship and these constituted to 25%. The respondents who were under the category of those divorced were with a percentage of 8% and those widowed were 4%. This implied that many respondents were under the bracket of those who were married and this showed a sign of responsibility in many of the respondents.

#### 4.1.4 Level of Education for Respondents

The level of education of the respondents would determine whether the internal controls in the institution are well known by the employees and whether they can use them to fulfillment of the intended purpose.

**Table V: A table showing the level of education for the respondents**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage%</b>
Secondary	3	12
Diploma	10	42
Degree	9	38
Post-graduate diploma	2	8
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

As far as education of the respondents is concerned, we see that many employees were educated and that is to say that many of them had diplomas with 42%, those with degrees were 38%, with post-graduate diplomas 8% and those with secondary level, 12%. This indicates that the majority of the respondents would know and understand the role of internal controls in the SACCO and how to implement them.



#### 4.1.5 Working Experience of Respondents

The researcher wanted so much to know how long the respondents have spent working with the institution which would help to the experience they have and knowledge about the internal controls in place.

**Table VI: A table showing working experience of respondents**

<b>Experience in years</b>	<b>Frequency</b>	<b>Percentage%</b>
1-3	4	17
4-5	6	25
6-8	13	54
8-10	1	4
10 years and above	-	-
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the data in the table, respondents with experience in the bracket of 1-3 years were 4 with a percentage of 17%, those who had 25% were with experience of 4-5years, those of 6-8 years of working experience, were 13 with a biggest percentage of 54% and only one was in the bracket of 8-10 years of working experience. This implies that the majority had worked for the institution for at least six years which is a big advantage to the SACCO in implementing the internal controls in place.

#### 4.2 Financial Internal Controls on Investment Growth in SACCOs

As a basic objective of the study, the research wanted to know the effect of internal controls on investment growth in SACCOs through getting answers from the respondents by use of the questionnaires. The respondents showed their say about this section to help the researcher know whether internal controls affect investment growth of SACCOs.

#### **4.2.1 The SACCO prepares, verifies and distributes to management current financial reports.**

The researcher wanted to know whether the SACCO prepares relevant financial reports and makes the management aware of them.

**Table VII: A table showing respondents reply about the preparation, verification and distribution of financial reports to the management.**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	6	25
Agree	15	63
Neutral	1	4
Disagree	2	8
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the findings, many of the respondents agree that the institution prepares, verifies and distributes financial reports to the management. If we consider the data above, we see that those who agree with this, their number is 15 taking a percentage of 62% followed by those who strongly agree with a total number of 6 with a percentage of 25%, and those who seemed to be negative about this, were making a number of 3 with a total percentage of 12%.

#### **4.2.2 The SACCO has enough funds/liquidity to finance its operations and investments**

The researcher was very eager to know the financial stand of the institution whether it has the ability to finance its operations so that it can fulfill its goals.

**Table VIII: A table showing the response of respondents on liquidity of the SACCO.**

<b>State</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	15	63
Agree	6	25
Neutral	1	4
Disagree	2	8
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

Considering the information in the table above, we can see that many of the respondents in the institution agree that the SACCO has enough funds or liquidity to finance its operations. This is based on the fact that the respondents who strongly agreed that the institution has enough liquidity were 15 with 63%, those who agreed were 6 taking 25%, those who don't know whether it has enough liquidity or not had 4% and was only one respondent, and 8% disagreed.

#### **4.2.3 Accountability and financial reports is one of the measures that help accountants to make right decisions.**

The researcher wanted to know whether the accountants use financial reports to make investment decisions basing on the financial stand of the SACCO.

**Table IX: A table showing the respondents' response on whether accountability help accountants to make right decisions.**

<b>Respondents' view</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	15	63
Agree	8	33
Neutral	0	0
Disagree	1	4
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

Considering the data above, the researcher found out that those there are different numbers of respondents who gave in different thoughts as far as accountants being helped by accountability to make right decisions. 15 strongly agreed taking 63%, 8 agreed with a 33%, one disagreed with a 4%, whereby the researcher never got any person who strongly agreed and the one who was neutral. This means that, the accountants use accountability to make decisions and as an internal control.

#### **4.2.4 Accountability helps the management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective decisions.**

The study considered this area in a way of knowing whether accountability helps in detecting of fraud and non-compliance with internal policies and procedures and detection of inefficient decisions.

**Table X: A table showing the respondents response on accountability that it helps the management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective decisions.**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	19	79
Agree	4	17
Neutral	1	4
Disagree	0	0
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

About 79% of the respondents that is 19 respondents strongly agreed that accountability help management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective decisions. 4 of them making 17% of the total percentage were agreeing with the view. This implies that accountability largely help management to fight fraud and non-compliance with the internal policies and procedures in the SACCO.

#### 4.2.5 Level of investment

Many SACCOs go for internal controls to see that they invest well their finds. So, the researcher wanted to know how far the institution has gone with investing their funds considering the internal controls.

**Table XI: A table showing respondents' response on the level of investment**

<b>View of respondents</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	12	50
Agree	5	21
Neutral	2	8
Disagree	4	17
Strongly disagree	1	4
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the primary data in the table above, we can see that the majority of the respondents strongly agree that the internal control affect positively the level of investment with 50%. Those who agree took a percentage of 21%, with 5 members. The research brought it out that those who didn't either disagree or strongly disagree; had a total number of 5 respondents with 17% and 4% respectively. This implies that, the internal controls help much in investment decision.

#### 4.3 Financial internal controls and market share growth in SACCOs

**4.3.1 Internal controls minimize the agency costs and therefore increase profits and sales of companies.**

**Table XII: Showing respondents views whether internal controls minimize the agency costs and therefore profits of SACCO.**

<b>Views of respondents</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	13	54
Agree	4	17
Neutral	4	17
Disagree	3	12
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

**4.3.2 Financial operations which improve corporate control improve the allocation of capital hence promoting growth.**

The researcher wanted to have the respondents' views on whether the financial operations in the institution that improve corporate control, do improve the allocation of capital hence promoting market share growth.

**Table XIII: Showing the respondents' views on whether the financial operations in SACCOs that improve corporate control, do improve the allocation of capital hence promoting the market share growth.**

<b>Views of respondents</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	10	42
Agree	5	21
Neutral	4	16
Disagree	3	13
Strongly disagree	2	8
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

The findings revealed that 42% strongly agreed, 21% agreed, 16% were neutral, 13% disagreed whereas only 8% did strongly disagree. This implies that the financial internal operations that improve internal control help so much in improving the market share growth.

**4.3.3 Capital markets will always grow as a result of expansion in financial markets which will always allow the investors to have a bigger choice of financial products.**

In finding the true perspective about this, he took this step to know whether the investors will always have a wider choice due to the capital growth.

**Table XIV: Shows the respondents’ views on whether the capital markets growth due to financial markets expansions will allow a bigger choice to investors on financial products.**

<b>Respondents’ views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	7	29
Agree	10	42
Neutral	6	25
Disagree	1	4
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

The respondents believed in different perspectives that; 29% strongly agreed, 42% agreed, 25% of them were neutral and only 4% were disagreeing, whereas none was strongly agreeing that the investors will always have a bigger choice on financial products due to the expansion of financial markets as a result of capital market growth.

**4.3.4 Internal controls that limit external partners in SACCOs, limit the sourcing of funds by the SACCOs which affects market share growth.**

Many SACCOs do not allow other external partners to invest their moneys together with them, this limits the external sourcing. So, the researcher wanted to know the respondents’ view on this in respect to SBT.

**Table XV: Shows the views of the respondents on whether the external sources are limited by the internal control which affects the market share growth.**

<b>Views of respondents</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	19	79
Agree	4	17
Neutral	1	4
Disagree	0	0
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

The study revealed that the 79% strongly agreed, 17% agreed, 4% did not decide anything and none was negative with this. This is a serious indicator that where there are internal controls that limit external partners to invest together with SACCOs, the funding of operations of SACCOs may be limited due to limited sourcing and this will affect the market share growth of such SACCOs.

#### **4.4 Respondents' response on the challenges faced in employing internal controls in SACCOs.**

In the efforts of trying to employ internal controls in SACCOs, there are some challenges faced as pointed out by the researcher. The respondents had their views on different challenges as shown below.



#### 4.4.1 Respondents' views on poor cash asset collection means

**Table XVI: Showing the respondents' views on poor asset collection means**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	10	42
Agree	6	25
Neutral	0	0
Disagree	5	20
Strongly disagree	3	13
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the findings, 42% of the respondents strongly agreed that there is a challenge of poor asset collection means in South Buganda Teachers' SACCO, 25% agreed, none was neutral and 20% disagreed while 13% strongly disagreed. This brought a conclusion to this question that, there is a challenge of poor asset collection means even though it may not be such high according to some respondents who never agreed with this.

#### 4.4.2 Respondents' views about poor risk assessment and management

**Table XVII: Shows the respondents' views on poor risk assessment and management**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	11	46
Agree	5	21
Neutral	1	4
Disagree	6	25
Strongly disagree	1	4
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

Considering the findings in table XV11, the researcher found out that 46% of the respondents strongly agreed with the question that there is a challenge of poor risk assessment and management, 21% agreed, 25% disagreed with the question, 4% strongly agreed and four never had any side. This brings us to analyze that, according to the majority of the respondents; there is a big challenge of poor risk assessment and management in SACCOs, faced while trying to employ internal controls in place.

#### 4.4.3 Respondents' views on the challenge of fraud in the SACCOs.

**Table XVIII: Shows the respondents' views on the existence of fraud in SACCOs as one of the challenges faced while employing internal controls.**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	9	38
Agree	15	62
Neutral	0	0
Disagree	0	0
Strongly disagree	0	0
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

This study found out that at least every one of the respondents agreed that there is a challenge of fraud in SACCOs while they try to employ internal controls. This was evidenced with the highest number of 15 of the 24 respondents who raised 62%, and those who strongly agreed were 38% leaving no one that was either neutral or disagreeing with the question. This is due to the fact that money issues are very difficult to manage.

#### 4.4.4 The respondents' views about the report material weaknesses in SACCOs

**Table XIX: Shows the respondents' views about challenge of report materials in SACCOs.**

<b>Views of respondents</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	5	20
Agree	7	29
Neutral	3	13
Disagree	6	25
Strongly disagree	3	13
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

According to the data in table XIX above, those who strongly agreed were 20%, those who agreed were 29%, 13% for those who never had a choice among the alternatives, 25% were disagreeing and 13% strongly disagreed. This showed that there is a red flag of report material challenge in the SACCO in the struggle to employ internal controls even though this is not such a big challenge as the results are showing that some said there is no such a challenge.

#### 4.4.5 The challenge of high maintenance costs faced by SACCOs

Internal controls involve using some hardware and other resources which at all times need maintenance to make sure that they serve the intended purpose. The researcher got the following feedback from the respondents.

**Table XX: Shows the respondents' view on the question whether the SACCO face a challenge of high maintenance costs.**

<b>Respondents' views</b>	<b>Frequency</b>	<b>Percentage %</b>
Strongly agree	10	42
Agree	5	21
Neutral	0	0
Disagree	8	33
Strongly disagree	1	4
<b>Total</b>	<b>24</b>	<b>100</b>

*Source: Primary data (2023)*

With the highest percentage of 42% for strongly agreeing respondents and those agreeing with 21%, a conclusion was made that there is a challenge of high maintenance costs even though some respondents believed that there is no such a challenge, if we consider those who disagreed with a percentage of 33% and those who strongly agreed with a percentage of 4%.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS**

#### **5.0 Introduction**

This chapter is basically targeting the general interpretation of the findings as well as the basic recommendations as they are put by the researcher. It is bringing down the possible suggestions in different areas of the study. These may be followed by the SACCOs to see that the challenges and all the factors that showed signs of weakness are put right.

#### **5.1 Summary of findings**

##### **5.1.1 Background information of the respondents**

Considering the findings, it was found out that many of the respondents of South Buganda Teachers' SACCO are female with 62% compared to male who had a percentage of 38%. And the majority were at least educated which showed a good view to the researcher that they could give a clear understanding of the internal controls in place.

##### **5.1.2 Role of internal controls on investment**

The study discovered that due to availability of internal controls, SACCOs can greatly carry out investment because internal control can help the institution to be with at least some liquidity to finance all the proposed investment so as to yield some profits.

##### **5.1.3 The relationship between internal controls and market share growth**

Due to the study carried out, there is a big effect of internal controls to market share growth whereby when internal controls are employed by SACCOs, this can help a SACCO to have enough liquidity, growing of agency markets, limiting costs, among others which will attract more investors hence beating the competition hence an advantage of market share growth. As controls become big, the more liquidity and they can stimulate the acquisition of information which improves resource allocation and ultimately contributing to economic growth hence market share growth.

#### **5.1.4 The challenges faced by SACCOs while employing financial internal controls**

With the evidence from research, the SACCOs face a lot of challenges but fraud takes a lead with 62%, but still challenges like risk management and assessment, largely affect the SACCOs in a struggle to employ internal controls.

### **5.2 Conclusions and Recommendations**

#### **5.2.1 Conclusion**

Considering the objective of the study about the effect of internal controls on investment growth, indicated that financial internal controls do affect the investment growth in SACCOs negatively and this means that investment growth does not depend on financial internal controls employed by SACCOs especially in SBT SACCO.

If we consider the findings of the objective of finding out the effect of internal controls on market share growth, it was found out that there was a good relationship between the financial internal controls and market share growth which implied that SACCOs do survive much on internal controls in trying to increase on the market share which in the long-run brings good financial performance.

On the last of objective of finding out the challenges faced by SACCOs while employing internal controls, the study revealed that many challenges limit the employing of internal controls which affect the financial performance of these institutions, if we consider challenges like risk assessment and management, high costs, fraud. These limit the chance of high liquidity of these SACCOs.

Generally, the study results brought it out that the financial internal controls including administrative financial controls and accountancy internal controls, affect the financial performance of SACCOs like South Buganda Teachers' SACCO and their performance is inversely influenced by presence of liquidity, high level of accountability and reliability, and lastly market share growth which is a good indicator of financial performance in SBT SACCO.

### **5.2.2 Recommendations**

Considering the findings of the study carried out from SBT SACCO, the following were given.

There is a need to train the employees of the SACCO financial internal controls in place to make sure that there is effective and efficient implementation of what the institution expects out of them and positive conduct to control activities.

The management of the at all times must make sure that there is proper decision making and feedback management in case it occurs which can positively motivate the employees and give high morale to the different stake holders of the SACCO.

There should always be constant training of the management of SBT SACCO about the internal controls in place to see that there is proper handling of assets and profitability.

### **5.3 Areas of further research**

Since the findings showed that there is a big relationship between the financial internal controls and financial performance of SACCOs, there is still a need to carry out research why some SACCOs do not employ standard financial internal controls.

And as well I do recommend that another scholar can try finding out why some internal control employed by SACCOs are not respected by employees and why sometimes not considered during the daily operations.

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## **APPENDIX 1**

### **LIST OF ABBREVIATIONS**

- 1. SACCOs** – Savings and Credit Co-operative Organizations
- 2. SBT SACCO** – South Buganda Teachers’ Savings and Credit Co-operative Organization

## APPENDIX 11

### QUESTIONNAIRE

Dear respondent,

I am Senkambi John a student of Uganda Martyrs University in year three offering Bachelors of Business Administration and Management. I am carrying out my research on the topic; “Internal controls and financial performance of SACCOs”. It is basically intending to find out the impact of internal controls on SACCOs considering the objectives; the effect of internal controls on market share growth in SACCOs, the effect of internal controls on investment growth in SACCOs, and the challenges faced in employing internal controls in SACCOs. All your views will be kept confidential.

I therefore request you to spare sometime and give your views on different parts in this questionnaire. Your views will be considered in coming up with a dependable report

#### SECTION A: BACKGROUND INFORMATION OF THE RESPONDENT

##### 1. Gender

Male

Female

##### 2. Age

Age bracket	Choice
18 – 25	
26 – 35	
36 – 45	
46 and above years	

### 3. Marital Status

Status	Choice
Married	
Not married	
Divorced	
Widowed	

### 4. Level of Education

Education level	Choice
Secondary	
Diploma	
Degree	
Post-graduate diploma	

### 5. Working Experience

Experience in years	Choice
1-3	
4-5	
6-8	
8-10	
10 years and above	

## SECTION B

In the section, you are requested to choose from the given options that is; Strongly agree, Agree, Neutral, Disagree, or Strongly disagree; by putting a tick in the corresponding box of your choice.

## Part 1. Financial Internal Controls on Investment Growth in SACCOs

a) The SACCO prepares, verifies and distributes to management current financial reports.

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

ii). The SACCO has enough funds/liquidity to finance its operations and investments

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

iii). Accountability and financial reports are one of the measures that help accountants to make right decisions.

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

iv). Accountability helps the management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective decisions.

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

v). Level of investment. The SACCO has gone with investing their funds considering the internal controls

<b>View of respondents</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

## **Part 2. Financial internal controls and market share growth in SACCOs**

i). Internal controls minimize the agency costs and therefore increase profits and sales of companies.

<b>Views of respondents</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

ii). Financial operations which improve corporate control improve the allocation of capital hence promoting growth.

<b>Views of respondents</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

iii). Capital markets will always grow as a result of expansion in financial markets which will always allow the investors to have a bigger choice of financial products

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

iv). Internal controls that limit external partners in SACCOs, limit the sourcing of funds by the SACCOs which affects market share growth.

<b>Views of respondents</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

**Part 3. Respondents' response on the challenges faced in employing internal controls in SACCOs.**

i). There are poor cash asset collection means in the institution

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

ii). There is poor risk assessment and management in SBT

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

iii). There is a challenge of fraud in the SACCOs.

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	



iv). There is a big challenge of the report material weaknesses in SACCO

<b>Views of respondents</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

v). The challenge of high maintenance costs is faced by SACCOs in implementing internal controls

<b>Respondents' views</b>	<b>Choice</b>
Strongly agree	
Agree	
Neutral	
Disagree	
Strongly disagree	

**I thank you for your time, may the Lord reward you abundantly.**