

Internal Controls and Corporate Governance. Empirical Evidence from Kenya's Savings and Credit Co-Operative Societies.

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Internal Controls and Corporate Governance. Empirical Evidence from Kenya's Savings and Credit Co-Operative Societies.

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Abstract

Internal controls is part of internal auditing which is an integral part of the corporate governance mosaic in both the public and the private sectors. The purpose of this study was to establish the effect of internal control on corporate governance in Sacco's in Nairobi County. The study was guided by the Agency and Stewardship theories. This study adopted descriptive research design. The study targeted 45 licensed SACCOS in Nairobi County with a population of 180 respondents who worked for 45 licensed SACCOS by SASRA in Nairobi

County. The sample size for the study was 124 respondents. Purposive technique and simple random sampling was used to select a sample size that represented all employees in filling questionnaires. In order to establish the validity and reliability of the instruments, a pilot study was carried out in Eldoret town. Data was analysed using descriptive and inferential statistics. The study findings indicated that there was a statistical significant effect between internal controls and corporate governance in Sacco's in Nairobi ($t=2.412, P<0.05$). The study recommended that the SACCOS should improve on the use of internal controls in monitoring their operations in order control consciousness of its employees, they should contact accounting assessment by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed, the policy makers and stakeholders should ensure that the Sacco should comply with rules and regulation of the ministry and taxes payment.

1.1 Background of the Study

According to Labie and Mersland (2011) corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. Corporate governance describes the rules, laws, and/or processes by which organizations are operated, regulated, and controlled. Excellent leadership is one of the most fundamental and critical components of corporate excellence. Corporate governance, therefore, encompasses authority, accountability, stewardship, leadership, direction and control in organizations. According to Bhagat and Black (2002) good corporate governance acts as a shield for organizations against vulnerability occasioned by future financial distress. This concurs with Thomsen (2008) assertion that good governance can improve

the performance of a Sacco and assure its long term survival.

Corporate governance has been reflected upon since the beginnings of the modern corporation (Kim and Nofsinger, 2007) it certainly has received increased attention and scrutiny over the last two decades. In this period, corporate governance issues have become important not only in the academic literature, but also in public policy debates. Corporate governance issues are in general receiving greater attention as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low investment capital (Mordelet, 2009).

Globally, corporate governance in cooperative societies is a sensitive and complex issue since cooperatives are underlined on the law of democracy regarding decision making and they have a wider

ownership than other classical firms (Labie & Perilleux, 2009). Even with the stringent laws, the AMFIU Report (2008) observed that governance among Savings and credit cooperative organizations still faced challenges and that their risk was highest among other cooperative societies, since they are involved in collecting and intermediating members' savings. Consequently, Cuevas & Fischer (2006) explained that SACCOs operate under a high credit risk as well as operational risks.

Some mainland European nations, including Germany and the Netherlands, require a two-layered Board of Directors as a method for enhancing corporate administration (Bob, 2009). It has been proposed that the Indian approach is drawn from the Gandhian guideline of trusteeship and the Directive Principles of the Indian Constitution; however this conceptualization of corporate goals is additionally predominant in Anglo-American and most different wards (SEBI advisory group, 2003).

In their examination, determinants of the corporate administration of Korean firms, Lee and Park (2005) made the accompanying their targets: possession and corporate administration; business structure and corporate administration; firm size and corporate administration, and; other budgetary attributes and corporate administration. The examination utilized relapse investigation. The paper examined the determinants of the corporate administration of Korean firms, concentrating on the impetuses of controlling investors. It utilized the information on corporate administration scores of Korean firms over the time of 2001 through 2003 and additionally their individual administration system for an observational examination. From an arrangement perspective, the investigation demonstrated that there exists a breaking point to the working of inward administration components as they can be killed by insiders. It recommended a requirement for administrative intercession by experts with respect to the issue of setting up the corporate administration of open firms, and furthermore a requirement for a dynamic market for control as a supplement to the inside administration component (Lee and Park, 2005).

In the region for example South Africa Government report on SACCOs of 2011 states that, bad corporate governance negates not only negates the financial performance of cooperative movements but can also occasion macro-economic crises as was witnessed in East Asia in late 1990's. Brown and Caylor (2004) asserted that, the global economic crisis and relatively poor performance of the corporate sector in sub-Saharan Africa necessitated the debate on corporate governance in light of economic development. One of the main topics of corporate governance is establishing an audit committee board and the independence of the

auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002). The Africa Capital Markets Forum is embraced an investigation on the province of Corporate Governance in Africa. The King's Committee Report and Code of Practice for Corporate Governance in South Africa distributed in 1994 keep on stimulating corporate administration in Africa. Provincial gatherings were held in Kampala, Uganda, in June 1998 and September 1999 to make mindfulness and advance territorial co-task in issues of corporate administration. At the June 1998 Conference, it was settled that every part state be urged to create both a structure and a code of best practice, to advance national corporate administration, and that endeavors be made to orchestrate corporate administration in the East African area under the support of the East African Cooperation, and through the foundation of a territorial zenith body to advance corporate administration. Consultative Corporate Sector workshops held in November 1998 and March 1999 settled that a Private Sector Initiative for Corporate Governance be set up to: Formulate and build up a code of best practice for corporate administration in Kenya; Explore ways and methods for encouraging the foundation of a national peak body [the National Corporate Sector Foundation] to advance corporate administration in Kenya; Co-ordinate improvements in corporate administration in Kenya with different activities in East Africa, Africa, the Commonwealth and all inclusive.

In Kenya, cooperative societies create an important part of the economy. Actually, the Vision 2030 of Kenya recognizes SACCOs as a prime mover in financial resource mobilization to create a vibrant and globally competitive financial sector in Kenya. SACCOs are led democratically and are designed to meet the social and the economic needs of their members. SACCOs operate across all sectors of the economy and it has been estimated that cooperative societies in Kenya, provide livelihood to 63% of Kenyans both directly and indirectly. The financial sector had mobilized estimated domestic savings amounting to Kshs. 150 billion by 2006 and the sector continues to grow at 20% per annum while at the same time, cooperative institutions contribute to the direct employment of over 250,000 people and indirectly through establishment of linkages between firms, farms, markets and through provision of collective and individual investments (Ministry of cooperative development and marketing, 2006)

As at 2016 there were 5,122 registered SACCOs in Kenya according to the Ministry of Cooperative Development and Marketing (2016); All SACCOs operate either FOSA or BOSA and have managed to pull together more than Kshs.200 billion which translates to about a third of the entire national

savings. Almost an equal amount of money constitutes the loan portfolio. The foregoing manifests the monumental role played by SACCOs in Kenya's financial sector.

Kabaiya (2012) recommended that, SACCOs ought to uphold the standards and allowable levels and practices of disclosure within their ranks. In this perspective, SASRA and the Ministry of Cooperatives should always ensure the adherence of the requirements for publishing accounts, appointments of external auditors and the availing of information to the membership with the aim of safeguarding shareholders' interests and also to ensure the growth of SACCOs. Moreover, it is noted that, ICPAK has contributed towards promoting good corporate governance in SACCOs and other entities. The institutions demands that, its members report on corporate governance practices of the organizations that they audit (Kavulya, 2011). Against this backdrop, however, Wambua (2011) alleges that, most of the problems facing cooperative societies in Kenya are as a result of bad governance and poor economic mismanagement. Given the importance of corporate governance and auditing, and the socio-economic role played by SACCOs in Kenya, it was, needless to say, fundamental to establish the relationship between auditing and corporate governance in SACCOs.

1.2 Statement of the Problem

The fundamental role played by SACCOs in the socio-economic development of developing countries and more specifically in Kenya cannot be understated. The fact that approximately 30 per cent

of savings in Kenya are handled by these financial institutions (Ministry of Co-operative development and marketing, 2010) underscores the importance of SACCOs to the Kenyan population. National economies have benefitted from well governed Co-operatives. The converse is true. Good corporate governance in SACCOs would lead to the realization of objectives of SACCO movement which is creation of wealth for sustained economic growth and development (Anyango, 2014).

However, despite the great potential of SACCOs as agents of national development in the country, they have performed poorly. The poor performance is attributed in a nutshell to poor auditing of the corporate governance processes of the bodies entrusted with the responsibility of governing the SACCOs. There is needed to get the sector back to sustainable prosperity through role SACCOs plays in the economy (Anyango, 2014).

To this effect, it is presumed that auditing influences leadership and governance of entities such as SACCOs. Needless to say, it's fundamental to establish the effect of internal audit on corporate governance in SACCOs. Therefore, this study sought to fill this gap by looking at the effect of internal audit on corporate governance in SACCOs in Nairobi County.

1.3 Objective of the Study

The main purpose of the study was to establish the effect of internal audit on corporate governance in SACCOs in Nairobi County.

2.0 Theory and Hypothesis Development

2.1 The Agency Theory

The main proponents of this theory are Jensen and Meckling in 1976 and Fama in 1983. The theory has dominated corporate governance arrangements in the economics and finance literature. It is founded on the assumption that owners of an organization (the principal) and those that are entrusted to manage it (the agent) are bound to have different interests. Needless to say, owners or organization's shareholders worry that managers are likely to act in their own self-interests at the expense of benefiting shareholders.

It is argued that though the agency theory stipulates that directors or managers are delegated to run the affairs of an organization by its shareholders, such agents could advance their personal interests (Clark, 2004). This is in spite of the shareholders' expectations that the managers or directors to act and make decisions to the interest of the organization. Padilla (2002) further reinforces this argument that the agent may fail to necessarily

make decisions in the best interests of the principals. The agent may give in to self-interests, opportunistic behavior and failing short of congruence between the aspirations of the principal and the agent's pursuits.

Agency theory perceives corporate governance arrangements as a way of ensuring that the management (agent) acts in the best interests of the shareholders principal (Keyseet al., 1997). It is averred that the board should monitor and control the management as part of corporate governance arrangements. In this light, therefore, the board members ought to be independent of the management in order for them to play an effective and unbiased oversight role. Agency theory with its emphasis on the conformance suggests that the monitoring role of the board, supported by such processes as external audit and reporting requirements, is likely to minimize problems of management pursuing their own interests or performing poorly. However, according to Cornforth and Chambers (2010), the application of agency theory could prove difficult in the public

sector including the public universities due to the ambiguity over who the principals are.

It is exemplified that the principals may range from the government, taxpayers, and recipients of services being offered by the institution to the general public. It is, therefore, not clear to who the agents are supposed to be accountable. The role of auditors comes into focus when examining the agency relationship between the directors and managers of Sacco's on one hand and the shareholders on the other hand. Auditing activity strives to ensure smooth agency principal relationship in Sacco's.

In the long history of corporate administration, it has been turned out to be valid that the office hypothesis' emphasis on the vital specialist relationship has made numerous dangers and hindrances also the association. For one, these two partners can't legitimately work or capacity without the nearness of other key constituents or partners inside the association. Other key partners, for example, the chief's subordinates, providers and the financial specialists additionally perform very critical capacities in the company which can't be disregarded or ignored.

The apparently "unjustifiable" and "uneven" focal point of the office hypothesis on just two partners have been for quite a while coming about into negative effects in the association which was defended through the impression of different partners on the "unequal dissemination of energy in the association". The unequal dispersion of energy and benefits inside the association, for the most part centered around just the principals and the operators, is the thing that influences other key partners to feel denied and insignificant in the enterprise (Eisenhardt, 1989) At the point when this happens, these different partners like for example the financial specialists and providers might be enticed to take away their faithfulness on the enterprise and move to its rival. This at that point puts the partnership into an undermining circumstance as its key partners know much private data about the organization.

From corporate administration point of view, effective determination of office issue (if conceivable) fundamentally decreases potential and legitimacy of office hypothesis in investigation of overseeing relations, leaving open door for use of stewardship hypothesis and other hierarchical speculations.

2.2 Internal controls

Inner control is comprehensively characterized as a procedure, influenced by a substance's top managerial staff, administration and other work force, intended to give sensible affirmation in regards to the accomplishment of targets in the accompanying classes; viability and effectiveness of tasks, unwavering quality of monetary revealing and

consistence with relevant laws and directions (Donald and Delno 2009). Interior control can enable a substance to accomplish its execution and benefit targets, and forestall loss of assets. It can help guarantee solid monetary announcing. Also, it can help guarantee that the venture consents to laws and controls, keeping away from harm to its notoriety and different outcomes. In total, it can enable an element to get to where it needs to go, and maintain a strategic distance from traps and astonishments en route (Jenning et al., 2008).

Inside control is includes an association's structure, work and expert streams, individuals and administration data frameworks, intended to enable the association to achieve particular objectives. Authoritative execution contains the real yield or consequences of an association as estimated against its expected yields (or objectives and goals). It includes the capacity of an association to satisfy its central goal through sound administration, solid administration and a determined rededication to accomplishing comes about. Viable philanthropies are mission-driven, versatile, client engaged, entrepreneurial, results situated and practical. Making adaptable, high-performing, learning associations is the key to increasing upper hand in a world that won't stop. Execution measures can be money related or non-budgetary. The two measures are utilized for focused firms in the dynamic business condition) (Jenning *et al.*, 2008).

EL-Nabi (2016) investigated the effect of corporate governance as an internal control system on financial performance of some selected companies listed in the Palestine Exchange in 2015. The empirical part of the study was based on a sample of 29 firms out of 47 firms listed in the Palestine Exchange. Findings revealed that there is a statistically significant correlation between audit committee financial expertise and return on assets. Otherwise, there is no correlation between any independent variables and either return on assets or return on equity controlling for any permutations for firm size, leverage and big. The study recommends the Capital Market Authority to promote high standards of the principles and ethics of transparency of corporate governance, enlightening their positive role on value maximization.

Asaolu, Adedokun and James (2016) completed an investigation on the impacts of inward review work (IAF) on great administration in people in general segment in Nigeria. An aggregate of 99 respondents took part in the investigation. IAF was estimated by autonomy of inward review framework, extent of work, proficient skill, examination process, and administration bolster, while nature of administration, administration of open assets estimated great administration. Information got was

broke down utilizing relationship examination and various relapse strategy.

Suyono and Hariyanto (2012) analyzed the connection between inside control, inward review and authoritative duty with great administration in Indonesia. The points of the exploration are to look at the connection between inward control, inside review, and association responsibility with the great administration. Interior control comprises of the association arranging that incorporates all techniques used to protect the organization resources, to safeguard the unwavering quality of data, to help the proficiency and adequacy of tasks, and to guarantee the consistence with standards and directions. Inner review is an association which capacities with the obligations to survey and assess all exercises inside the association. Association duty is characterized as the individual relative energy to distinguish his/her self into the association. Administration has been differently characterized as the activity of specialist or control to deal with a nation's undertakings and assets.

Zahid, Maha & Irfan (2015) investigated the functionality of each of the five internal control components, effectiveness of the control system and its relationship with financial performance. In methodology the study sample size for this research was 210 respondents comprising of employees from 6 Banks in Hyderabad: NBP and Sindh bank from the public sector, MCB and HBL from the private sector, Meezan bank and Bank Alfalah as Islamic banks. In this study, internal control is measured by the five components whereas financial performance is measured through three profitability ratios. Findings of the study showed that internal control effectiveness is strongest in private banks, followed by public banks and weakest in Islamic banks, although the difference is not statistically large, but slight variation exists. Moreover, private banks had a high level of financial performance; public banks had moderate level of financial performance whereas Islamic banks were found to have low financial performance.

Mutave (2014) did a study showing the relationship of internal audit and the effect on corporate governance on financial institutions in the country.

The study used a descriptive design. He focused on 9 licensed deposit taking financial institutions in Kenya. The research targeted the heads of internal audit and company secretaries of 9 institutions. The researcher gathered primary data the emerging developments in the microfinance institutions. Questionnaires with structured questions were used to collect information. The kind of study carried out was quantitative in nature and it used descriptive statistics for analysis. The researcher also used a multivariate regression analysis in order to know the relationship between the independent and dependent variables. The revealed that risk management, internal controls, compliance and consulting and audit committee had a massive effect on corporate governance in the institutions.

Muriungi (2010), researched on the relationship between auditing and the performance of Kenyan state corporations. The study had a main objective of investigating the relationship between auditing and the performance of state corporations. The research sampled 10% of the 133 Parastatals audited by KENAO. The primary data was assembled via structured questionnaires. Regression was used to establish the relationship between auditing and performance of a firm financially. The research revealed that without auditing, the company was on the edge of falling into losses. On the other hand an increase in auditing practices which were meant to improve the audit committees, the various internal controls, transparency and independence would improve the performance.

H₀₁: There is no significant effect of internal controls on corporate governance in Sacco's in Nairobi County

Conceptual Framework

The conceptual framework is meant to demystify the relationship between research variables. The independent variables are; risk management, internal control, compliance and auditor's experience while the dependent variable corporate governance. The relationships between these variables are illustrated in figure 2.1

Independent variables

Internal Control

- ✓ Monitoring
- ✓ Accounting
- ✓ Information and communication
- ✓ Policies and procedures



Dependent variable

Corporate Governance

- ✓ Managerial Discipline
- ✓ Good board Independence
- ✓ Protection of Shareholders' Rights

Figure 2.1 conceptual framework

3.0 RESEARCH METHODOLOGY

3.1 Research Design

This study adopted descriptive research design. Orodho and Kombo (2002) define descriptive as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. This is due to the fact that the study seeks to have an accurate description of the study variables and also study the relationship between the aforesaid variables. Using descriptive research design allows for gathering in-depth information that may be either quantitative (surveys) or qualitative (observations or case studies) in nature. This allows for a multifaceted approach to data collection and analysis. Using descriptive research design will result in rich data that is collected in large amounts.

The study targeted 45 licensed SACCO in Nairobi County. In the study the target population was 180 respondents from licensed SACCO in Nairobi County (SASRA, 2017). The study employed purposive sampling technique and simple random sampling in selecting the respondents. The researcher obtained sample size using Slovin's Formula

$$n = N / (1 + Ne^2)$$

Where

n = Number of samples,

N = Total population

e = Error tolerance 0.05

$$\text{Therefore } n = 180 / (1 + 180 * 0.05^2)$$

$$n = 124$$

The questionnaires consisted of both open ended and closed ended questions. The questionnaires were sub-divided into sections so as to capture the response and details required. The purpose for using questionnaires is because they are easier to

3.3 Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots \dots \dots \text{equation 3.1}$$

Where,

Y = Composite index representing corporate governance

B₀ = Constant term

X = The independent variables -

X₁ Represent Risk Management

X₂ Represent Internal Control

X₃ Represent Compliance

X₄ Represent Auditor's Work Experience

β₁, β₂, β₃ and β₄ are the coefficients of proportionality for risk management, internal control, compliance and auditor's work experience respectively

administer and easy to analyze, since each item is followed by an alternative answer (Vehovar, 2003). In order to ascertain reliability and validity of the research instruments, the researcher piloted the instruments by distributing 12 questionnaires to respondents in Saccos in Eldoret town, which were not part of the area sampled. The pilot respondents represented 10% of the sample size. The results of the piloted research instruments enabled the researcher to determine the consistency of responses made by respondents and adjust the items accordingly by revising the document.

3.2 Validity of Research Instruments

Validity is the accuracy and meaningfulness of the inferences which is based on the research results, it is the degree to which the results obtained from the analysis of the data actually represent the phenomena under study Mugenda, and Mugenda (2003). Content validity is concerned with whether or not a test or measuring instrument is a representative of a full content under study, Shaw & Weir (2007). Content validity is most often measured by relying on the knowledge of people who are familiar with the construct being measured. Define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Orodho, 2009). Data collected from pilot study at Saccos in Eldoret town were used to test for reliability of research instruments. Cronbach's Alpha was used to test for reliability where value above 0.7 was considered acceptable. According to Pallant (2011) when using the Cronbach's Alpha coefficient value to test reliability, a value above 0.7 is considered acceptable; however, a value above 0.8 is preferable. This method requires neither the splitting of items into halves nor the multiple administrations of instruments. The internal consistency method provides a unique estimate of reliability for the given test administration.

ε Represents Error term

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Response Rate

A total of 124 research instruments were sent out to the respondents to fill and collect the required information. Of these 90 questionnaires, were returned for analysis when completely filled. The completely filled returned 90 research instruments accounted for a response rate of 75%. According to Mugenda and Mugenda (1999) a response rate of 70% and above is acceptable and therefore, a response rate of 75% was satisfactory for data analysis. Table 4.1 shows the response rate.

Table 4.1: Response rate

Category	Frequency	Percentage
Administered	124	100.0
Returned	90	75.0

4.2 Validity and Reliability

Data collected from pilot study were used to test for validity and reliability of research instruments. The validity of the research instruments was determined through the content validity and face validity. Content validity is concerned with whether or not a test or measuring instrument is a representative of a full content under study, Shaw & Weir (2007). In face validity, we looked at the operationalization and see whether "on its face" it seems like a good translation of the construct. The subject-matter experts who are in Sacco's, Eldoret town were provided with access to the measurement tool and were asked to provide feedback on how well each

question measures the construct in question. Their feedback was analyzed, and informed decisions were made about the effectiveness of each question. Thus, the questionnaire developed included all items on the independent and dependent variable. Cronbach's Alpha was used to test for reliability where value above 0.7 was considered acceptable. According to Pallant (2011) when using the Cronbach's Alpha coefficient value to test reliability, a value above 0.7 is considered acceptable; however, a value above 0.8 is preferable. The results of the reliability tests were as shown in the (Table 4.2);

Table 4.2 Reliability Test

Items	Cronbach's Alpha	N of Items
Auditor's work Experience	0.912	4

The study findings indicated that all values of Cronbach's Alpha were above 0.7 giving an implication that the research instruments used for data collection were reliable.

4.3 Demographic Characteristics of the Respondents

Among the demographic information sought were; gender, age, years of work and education level. The respondents were first asked to indicate their gender. This is shown in Table 4.3.

Table 4.3: Gender of the respondents

Gender	Frequency	Percent
Male	52	57.8
Female	38	42.2
Total	90	100.0

Table 4.3 shows that majority 52(57.8%) of the respondents were male while 38 (42.2%) were female. This implies that employment in the SACCO obeys a third gender rule as per the constitution of Kenya. The respondents were further asked to indicate their age. This is presented in Table 4.4.

Table 4. 4: Age of the respondents

Age Category	Frequency	Percent
18-29 years	17	18.9
30-39 years	58	64.4

40-49 years	15	16.7
Total	90	100.0

Table 4.4 shows that 17(18.9%) of the respondents were 18-29 years, majority 58(64.4%) 30-39 years, 15(16.7%) 40-49 years. This implies that majority of respondents are old enough to give accurate information concerning internal audit on corporate governance in savings and credit co-operative societies. Thereafter, the respondents were asked to indicate the period they had worked in the SACCO. This is presented in Table 4.5.

Table 4. 5: Period worked in the SACCO

Working period	Frequency	Percent
below 5 year	44	48.9
5-10 years	36	40.0
10 -above years	10	11.1
Total	90	100.0

Table 4.5 shows that majority 44(48.9%) of the respondents had worked in the SACCO for a period of less than 5 years, 36(40.0%) of respondents has worked for 5-10 years and 10(11.1%) of respondents had worked for a period of 10 years and above. This implies that most of the respondents had worked for a period of less than 5 years implying they have accurate information concerning effect of internal audit on corporate governance in savings and credit co-operative societies. Lastly, the respondents were asked to indicate their level of education. This is presented in Table 4.6.

Table 4. 6: Level of education for the respondents

Education Level	Frequency	Percent
Certificate	7	7.8
Diploma	62	68.9
Undergraduate	21	23.3
Total	90	100.0

Table 4.6 shows that majority 62(68.9%) of the respondents were diploma holders, 7(7.8%) were certificate holders and 21(23.3%) of respondents were degree holders. This implies that most of the respondents are diploma and degree holders. Therefore, they were knowledgeable hence it was easy for them to answer the research questions.

Influence of Internal Controls on Corporate

Governance in Sacco's

The study determined effect of internal controls on corporate governance in Sacco's. The study determined the respondents' level of agreement on a five point Likert scale of the influence of internal controls and corporate governance in SACCO'S. Where; 1=strongly disagree, 2=Disagree, 3=Undecided, 4= Agree and 5= Strongly Agree

Table 4.9: Statement on internal controls and corporate governance in SACCO'S

Statement	N	Min	Max	Mean	Std. Dev	Variance
The Sacco has monitoring which influence the control consciousness of its employees.	90	2.00	5.00	4.68	0.74418	.554
There is accounting assessment in the Sacco by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.	90	2.0	5.0	4.76	0.4983	.248
The Sacco have adopted the processes that support the identification, capture and exchange of Information and communication in a form and time frame that enable people to carry out their responsibilities.	90	3.00	5.00	4.76	0.54153	.293
The Sacco has policies and procedures that have helped to ensure management directives are carried out.	90	2.00	5.00	4.54	0.80951	.655

Table 4.9 shows that respondents agreed (M=4.68 and Std. Dev=0.74) that the Sacco has monitoring

which influence the control consciousness of its employees. The respondents also agreed (M=4.76

and Std. Dev=0.49) that there is accounting assessment in the Sacco by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. The study findings further indicated that respondents agreed (M=4.76 and Std. Dev=0.54) that the Sacco have adopted the processes that support the identification, capture, and exchange of Information and communication in a form and time frame that enable people to carry out their responsibilities. Lastly the respondents agreed (M=4.54 and Std. Dev=0.80) that the Sacco has policies and procedures that have helped to ensure management directives are carried out

The study findings indicated that internal controls have an effect on corporate governance of the SACCO'S. This because majority of respondents agreed that through internal control the Sacco can monitor it operations hence influencing the control consciousness of its employees. Sacco contact accounting assessment by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. In addition through internal control the Sacco can adopt the processes that support the identification, capture, and exchange of information and communication in a form and time frame that enable people to carry out their responsibilities and Sacco's internal policies and procedures can help to ensure management directives are carried out.

The results concurred with findings of Taiwo et al., (2016) on the effects of internal audit function on good governance in the public sector in Nigeria. Their study results showed that the effectiveness of internal audit function in Nigerian public sector organizations. Internal audit system in the public organizations was absolutely independent however; professional competence was limited due to the challenge of insufficient funds to successfully carry out its duties. Moreover, the study revealed that internal audit function had significant and positive effect on the quality of service delivery and management of resources in the public organizations.

Further the study findings agree with a study done by Suyono and Hariyanto (2012) on the relationship between internal control, internal audit and organizational commitment with good governance in Indonesia. Their study findings showed that internal control, internal audit, and organization commitment have positive significant relationship with the good governance. It means that when local government of central java province implements the internal control effectively, audit internal and high organization.

Correlation between Internal Controls and Corporate Governance

The study examined the relationship between internal controls and corporate governance. The correlation analysis results are presented in 4.20

Table 4.20 Correlation between Internal Controls and Corporate Governance

		Internal Controls
Corporate Governance	Pearson Correlation	.704
	Sig. (2-tailed)	.000
	N	90

From the study findings (table 4.20) on correlation revealed that Pearson correlation coefficient, r , was 0.704, and that it was statistically significant ($p < 0.01$). A Pearson product-moment correlation was run to determine the relationship between internal controls and corporate governance. There was a strong uphill (positive) linear relationship between internal controls and corporate governance, which was statistically significant ($r = 0.704, n = 90, p < 0.01$).

The Null Hypothesis H_{01} postulated that there is no significant effect of internal controls on corporate governance in Sacco's in Nairobi County. However, the study finding indicated that internal control had a positive and significant effect on corporate governance of Sacco's ($t = 2.412, P < 0.05$). Therefore, the study findings rejected the null

hypothesis. This implies that through internal control measures corporate governance is enhanced. This helps Saccos to monitor their operations hence influencing the control consciousness of its employees.

The study concur with the study findings by Suyono and Hariyanto (2012) who showed that internal control, internal audit, and organization commitment have positive significant relationship with the good governance. It means that when local government of Central Java province implements the internal control effectively, audit internal and high organization commitment, and therefore makes the good governance practices increase. The rationalization of the findings of their study was that internal control gives assurance in the reliability of financial reporting, and therefore if internal control

within organization runs well the good governance practices can be automatically improved.

The study findings disagreed with findings of study done by Asaolu, Adedokun and James (2016) which showed that there was no effectiveness of internal controls in Nigerian public sector organizations since internal audit system in the public organizations was not absolutely independent and professional competence was limited due to the challenge of insufficient funds to successfully carry out its duties.

5.0 Conclusion of the study

These conclusions can be evidence from the specific objectives that risk management enhances corporate governance in SACCOS. This can be seen through the use of risk management to identify risk exposure. The Sacco can able to monitor risk in order to strengthen of poor controls and through risk management the Sacco has been able to assess and facilitate the risk reporting and escalation process. Secondly internal controls improve corporate governance in the SACCO'S. This because through internal control the Sacco can monitor it operations hence influencing the control consciousness of its employees. This is evident from the study results which indicated that internal control had a significant positive effect on corporate governance.

5.1 Recommendation of the study

In reference to the findings, conclusions and the guidance from the literature review, the study recommends that;

The SACCOs should adopt risk management and effectively used to identify risk exposure and monitor risk in order to strengthen of poor controls. The Sacco's should improve on the use of internal controls in monitoring their operations in order control consciousness of its employees. They should contact accounting assessment by identifying and analyzing the relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.

The policy makers and stakeholders should ensure that the Sacco should comply with rules and regulation of the ministry and taxes payment. They should contact an audit in order to promote accountability, reviews operational and financial performance at the inception of the investments helps to ensure their ultimate success. They should ensure efficiency of operations and offers an opportunity to improve contract terms and conditions. Sacco's should employ workers with experience in auditing in order to improve the performance of corporate governance. These work experience will equip auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.

5.2 Recommendation for further Studies

The researcher suggests the following further areas of research. A research should be carried on the effect of other elements of internal audit on corporate governance. Further research should be done on the mediating effects on the relationship between internal audits on corporate governance.

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