

**THE EFFECT OF INTERNAL AUDIT FUNCTION ON FINANCIAL
PERFORMANCE OF SACCOs: THE CASE OF NAIROBI COUNTY**

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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DEDICATION

This work is dedicated to Almighty God and my beloved parents, Mrs. Grace Langat and Mr. Richard Langat the people whom God has used to shape up my life.

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LIST OF ABBREVIATIONS

DTS	Deposit Taking Saccos
EBIT	Earnings Before Interest and Tax
FOSA	Front Office Service Activity
GPM	Gross Profit Margins
IA	Internal Audit
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
ISA	International Standards of Accounting
NOM	Net Operating Margin
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SACCOs	Savings and Credit Cooperative Societies
SASA	Saccos Societies Act
SASRA	Saccos Society Regulation Authority

ABSTRACT

This study investigated the effect of internal audit function on financial performance of Savings and Credit Cooperative Societies in Kenya. A causal research design was adopted in this study. The target population included twenty-six registered Saccos' in Nairobi County. The study used primary data which was collected using a semi-structured questionnaire. Data was analysed using descriptive statistics and regression analysis. The study revealed that internal audit function; Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure and Records Accessibility explained 74.3% of variation in financial performance of Savings and Credit Cooperative Societies in Kenya. The study established that most Saccos always have an un-limited access to information they are supposed to audit. The internal audit overall performance in most Saccos was found to be good and adequate and the internal auditors were noted as the key important people to any Sacco. Prediction by regression indicated that a unit increase on the level of Internal Auditors' qualifications leads to a 37.6% increase on financial performance of Savings and Credit Cooperative Societies. It was further noted that in most Saccos, operations and reporting structure are independent with only very few Sacco's being the exception. Finally, the study established that internal auditors in most Saccos (70%) are provided with all the records for compiling audit reports and they are considered as the advisors to management on matters related to internal controls and governance. The study recommended that management of Saccos should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Saccos should also adopt effective internal processes and practices that address key internal auditing practices for effectiveness of audit quality. This research recommends a similar study to be done but concentrate on the parastatal and government ministries.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Internal auditing is imperative in business and money related detailing procedures of companies and non-revenue driven associations. Inside reviewers are worried in checking organization's hazard profile and distinguishing ranges to enhance chance administration. The point of internal auditing is to enhance hierarchical productivity and adequacy through useful feedback (Goodwin-Stewart and Kert, 2006). Inward control is a procedure that aides and association towards accomplishing its destinations. These targets incorporate operational proficiency and viability, dependability of budgetary announcing, and consistence with applicable laws and controls (COSO, 1994/2004). Nonappearance of these factors frequently brings about authoritative disappointment. The discoveries of the Tread Way Commission Report of 1987 in the United States (USA) affirmed nonattendance of, or frail, inside controls as the essential driver of many instances of false organization financial reporting.

As per Jensen and Meckling (1976), agency theory clarifies that an organization comprises of a nexus of agreements between the proprietors of financial assets (the principals) and administrators (the operators) who are accused of utilizing and controlling those assets. Agency theory further promotes that specialists have more data than principals and that this data antagonistically influences the principals' capacity to screen regardless of whether their interests are by and large appropriately served by operators. Moreover, a presumption of agency theory is that principals and specialists act reasonably and utilize contracting to boost their riches. A result of this presumption might be the 'ethical danger' issue, showing that with an end goal to amplify their own particular

riches, operators may confront the problem of acting against the premiums of their principals. This hypothesis since "thinks about have demonstrated that powerful inside review work lessens organization costs".

Since there is increased number of business failures and publicized frauds, for example the cases of Dubai Bank, Imperial Bank, Chase bank, Kenya Airways and Uchumi Supermarkets Limited, firms are encouraged to put more accentuation on their inside control systems, which are particular to their specific working condition. Everywhere throughout the world there is an acknowledgment that the inward audit activity can possibly give unparalleled administrations to management in the lead of their obligations. This potential has been transformed into a test and encapsulated in the new meaning of internal auditing from the Institute of Internal Auditors (the IIA). Savings and Credit Co-operative (SACCO) is as a relationship of likeminded people, enlisted under the Ministry of Cooperatives (In Kenya), and approved to take deposits from and loan to its individuals. SACCOs are represented by the SACCO local laws which express the goals, enrollment, share capital, association structure, administration and loaning regulations. SACCOs have gone to the acknowledgment that internal audit is fundamental in enhancing administration of benefits in the SACCOs driving enhanced financial execution.

1.1.1 Internal Audit Function

Internal audit is an autonomous, target affirmation and consulting action intended to include esteem and enhance an association's operations. It enables an association to achieve its goals by bringing a precise, trained way to deal with assess and enhance the viability of hazard administration, control, and administration forms (Pickett, 1976).

Internal audit in SACCO perspective can be referred to as an independent consulting and confirmation movement intended to include esteem and progress the Saccos operations. The improvement of Saccos operations can be in terms of governance, day to day operations, interior control system what's more, consistence to the laws and regulations. The internal auditing function is very important in any business entity as it has a noteworthy part in planning and building up the inner control framework and bolster the corporate administration. It contributes in measuring and assessing the dangers encompassing the workplaces. Also it helps in measuring and assessing capability and effectiveness execution and it amplifies the association ability to utilize the best strategies to utilize the accessible assets to get the most quality so that substance's objectives are accomplished.

Internal audit decides the unwavering quality, reality, and respectability of budgetary and operational data that originates from various authoritative units, on which proper business choices at all levels of administration are based. Effective execution of inside review undertakings implies that it must be free, i.e., organization administration ought to not the slightest bit impacted by its work, data, conclusions, and assessments. Thusly the internal audit report turns into a method for correspondence between internal audit and administration, and an essential rule for the fruitful administration of the organization (Ljubisavljević & Jovanovi, 2011). According to Verschoor (1999), legitimately founded frameworks of inner control will guarantee; fulfilment of all transactions embraced by an entity, that the substance's benefits are shielded from robbery and abuse, that exchanges in the budgetary explanations are expressed at the suitable sums, that all advantages in the organization's money related proclamations do exist, that every one of the advantages

exhibited in the organization's monetary articulations are recoverable and that the element's transactions are introduced in the proper way as per the pertinent announcing structure.

1.1.2 Financial Performance

Performance alludes to the capacity to work proficiently, gainfulness, survive, develop and respond to the natural open doors and dangers (Stoner, 2003). Financial performance is a tool used to measure how well an organization uses assets in its day to day business activities to generate revenue. The normal pointers of financial performance incorporate benefits, degree of profitability, return on resources, esteem included and margins among others. Monetary execution guides management on the procedures and approaches to receive to enhance sustainability of the association. Performance can be measured by comparing current year's outcomes with earlier year to set up whether execution is more positive or unfavourable than some time recently, current year's outcomes with those of tantamount organizations in a similar line of business to build up whether the organization is performing preferred or worse over its rivals and current execution against a benchmark or standard of execution (Catherine, 2014).

Janglani and Sandhar (2013) identified the following measures of corporate profitability; benefit in connection to sales and gainfulness in connection to speculation. Net operating margin (NOM), Gross profit margins (GPM), return on equity (ROE) Return on assets (ROA) and return on capital employed (ROCE) are the principle measures of gainfulness. Non-financial companies must gain profit to survive and become over a drawn out stretch of time. Operating efficiency of a company is measured by calculating profitability ratios. Return on Assets (ROA) communicates the net pay earned by an organization as a rate of

the aggregate resources accessible for use by that organization. ROA measures administration's capacity to gain an arrival on the company's assets (resources). ROA is registered on pretax premise utilizing EBIT as the measure. This outcomes in a measure that is unaffected by contrasts in an association's assessment position and in addition financing arrangement. It is registered by separating income before intrigue and duty by add up to resource as further explained by (Janglani & Sandhar, 2013). This study will adopt ROA as a measure of the magnitude of net income per unit of asset of the Saccos. A higher ratio shows that the assets of the Saccos are efficiently utilized to raise income whereas lower ratio depicts the investment of the Sacco is not generating much revenue.

1.1.3 Internal Audit and Financial Performance

For any profit-making organisation to build up the connection between inner review and the execution of its firm, the standards required to measure the financial performance must be identified. These incorporate actual yield contrasted with arranged yield, level of success in accomplishing targets, number of client's gripes and productivity. The internal audit division gives a dependable, goal and impartial support of the administration, governing body and review panel while partners are occupied with rate of return, economic development, solid initiative and solid writing about the financial execution and business routine with regards to an organization (Ijubisavijevic & Jovanovi, 2011).

Empirically, a review led by KPMG (1999) found that the internal audit work in associations where it exists, contributes generously to execution change and helps with distinguishing benefit evidence in corporate calamities, especially money related extortion reliably records a relationship between frail administrations. Hence inward review being on the watch out will spare association from acts of neglect and anomalies

in this manner empowering the association to accomplish its targets of guaranteeing abnormal state of profitability and benefit.

1.1.4 SACCOS in Kenya

Savings and Credit Cooperative Societies (SACCOS) are self-ruling relationship of people joined deliberate to meet their basic financial, cultural, and social needs and desires through a together claimed and democratically controlled undertaking and are Department of Cooperatives (SASRA, 2011). The SACCO is expansive classes of cooperatives to be specific budgetary cooperatives and non-money related cooperatives (incorporates cultivate create and different products promoting cooperatives, lodging, transport and speculation cooperatives). In the current past Savings and Credit Cooperative Societies (SACCOS) have become quicker than different cooperatives. The foundation of SACCO Societies Act 2008(SASA) places the permitting, supervision and control of store taking under the umbrella of SACCOS Society Regulation Authority (SASRA). The Cooperative Society Act has administered all SACCCOs and their structure since 1966 with a few revisions. On understanding the trouble of managing operations of SACCOS under the Cooperative Societies Act, the legislature ordered the SACCO Societies Act 2008, which built up the SACCO Society Regulation Authority (SASRA) to permit, direct, oversee and advance SACCO Societies improvement in Kenya (SASRA SACCO Supervision Report, 2010).

The foundation of SASRA falls inside the legislature of Kenya's change procedure in the monetary segment which secures the enthusiasm of SACCO individuals and imparts trust in the general population towards the SACCO area. This concurs with Kenya's economic development through the preparation of household investment funds (SASRA SACCO

Supervision Report, 2011) hence encouraging SACCOs to enhance internal audit function within their institutions. The SACCO sector includes both store taking and non-deposit taking SACCOs. Deposit-taking SACCOs is managed by the official for cooperatives. SASRA authorized SACCOs that have been enlisted under the cooperatives Societies Act CAP 490 (SASRA, 2012). There were 6,007 enlisted SACCOs in Kenya as at December 2010 of which 2,959 were dynamic –active SACCOs are those whose yearly reports have been audited and enrolled by the magistrate for cooperatives. Out of the active SACCOs 218 was deposits taking which SACCO are operating FOSAs while 2,011 SACCOs were non-deposit are taking SACCOs (not operating FOSAs).

The aggregate participation of SACCOs as at December 2010 was 1,857, 566 representing around 4.8% of the aggregate populace (SASRA SACCO Supervision Report, 2011). The total assets increased to ksh.248 billion from ksh.216 billion in the same year. By close of 2013, there were 215 stores removing Saccos from which one hundred and thirty-five (135) were authorized by SASRA. The rest of the 80 Saccos were all the while attempting to fulfill the authorizing prerequisites as they have up to June 17th 2014 to go along or stop store taking Sacco business. The 215 DTS represent 78% of the aggregate resources and stores of the whole Sacco sub-part. Further, they order 82% of enrolment in the Sacco business.

1.2 Research Problem

Savings and Credit Cooperatives Societies operate under the SASRA (2008) principles and their operations are governed by these principles. SACCOs just like commercial banks have a responsibility to support the country's economy through mobilization of savings and provision of credit for business expansion (Daniel, 2011). Magara (2013)

conducted a study on the effects of internal controls on monetary performance of SACCOs and found out that SACCOs with effective internal controls have better financial performance than those which do not have. Wairimu (2014) studied the effect of corporate governance on financial performance of Registered Transport SACCOs in Nairobi County and concluded that the board of directors should supervise the management of SACCOs appropriately to improve financial performance.

Chelangat (2014) undertook a study on the implications for fraud on financial performance of Deposit taking SACCOs in Kenya and concluded that fraud influences the financial performance of Deposit taking SACCOs in Kenya. Hutchinson & Zain (2009) explored the association between inner audit and firm performance (ROA) with development openings and audit council freedom with regards to Malaysia. In review of these studies none of them have looked at the correlation between internal audit function and financial performance of a firm especially the SACCO sector in Kenya. Therefore, based on this background the study sought to establish the effect of internal audit function on monetary execution of licensed Savings and Credit Cooperative Societies (SACCOs) in Kenya particularly in Nairobi County.

1.3 Research Objective

To determine the effect of internal audit function on financial performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya.

1.4 Value of the Study

This study intends to identify the implications for internal audit function and monetary execution of registered Saccos in Nairobi County. The study findings help in uncovering

the effect of these variables under the context of registered Saccos in Nairobi County. The study help Saccos comprehend the significance of internal audit as a way of recognizing and counteracting extortion, testing interior control and checking consistence with Sacco policy and government direction.

The management of Saccos is in a position to implement methods for making inward audit a totally autonomous function from the administration in this manner making it more compelling. It also helps shareholders to appreciate rule of internal audit as one of the most important managerial tool in a Sacco and to assess the risk and return of their investment in the Sacco and take investment decision based on their analysis. This research too open room for further research by future researchers who may want to study other aspects of financial performance of SACCOs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Literature is crucial in exemplifying the state of knowledge in a particular field of study. This chapter deals with the subject internal audit and the effect it has on financial performance of entities especially the Saccos in Kenya.

2.2 Review of Theories

Theories are analytical tools used to understand, explain and make predictions about a given study. Some of the theories formulated on internal audit and financial performance of Saccos include Contingency, Agency theory, and Lending Credibility theory. They are discussed below.

2.2.1 Agency Theory

As indicated by this hypothesis one party (principal) decides the work while another party (specialist) takes every necessary step. In this relationship, the principal enlists an operator to take every necessary step where the principal can't. Office hypothesis accepts both the principal and the specialist are inspired without anyone else's input intrigue (Magara, 2013). As indicated by Jensen and Meckling (1976) difference exists between the specialist's choices and those choices which would expand the welfare of the principal. Inside this principal-specialist relationship, proprietors have an enthusiasm for expanding the estimation of their offers, though directors are more inspired by 'private utilization of firm assets' and firm development. Keeping in mind the end goal to blend the interests of the specialist and the principal, a compressive contract is composed to address the enthusiasm of both the operator and the principal. Furthermore the

relationship is additionally reinforced by the principal utilizing a specialist to screen the operator (Barlie& Means, 1932).

As indicated by Adams (1994), organization hypothesis can accommodate wealthier and more significant researchful research in the internal audit train. This hypothesis battles that internal auditing, in the same manner as other intercession component like financial detailing and outside audit, keeps up cost-productive contracting amongst proprietors and supervisors. For the benefit of the principal, the auditor surveys whether the financial explanations, arranged by the operator, introduce a genuine and reasonable perspective of the organization and are set up as per general acknowledged bookkeeping standards. The financial proclamation audit makes administration responsible to shareholders for its stewardship of the organization.

2.2.2 Contingency Theory

The theory enables hypothesis a restrictive connection between at least two free factors with a needy variable and subject it to an observational approval. Therefore, this study posits that internal audit effectiveness is contingent upon the performance of a firm. According to Cadez and Guilding (2008), contingency theory is utilized to depict the connections between the unique situation and the structure of internal control viability and hierarchical performance, particularly unwavering quality of financial revealing.

Experimental investigation proposes that internal auditors who are particular and higher in internal audit capacity will accomplish internal controls viability examination and that the firm will profit by the hierarchical adequacy by means of internal control component proficiency. Auditing team can use both structure and contingency to bring outcome on

board. Auditing work or rules include inspection of company accounts and its assessment of compliance with company's standards and evaluation of production processes. The quality of their work assures the confidence of a company in them by making sure that resources are used well according to expertise and experiences.

2.2.3 Lending Credibility Theory

The most capacity of auditing is to add believability to the financial articulations of any association. Loaning validity hypothesis is utilized by the administration on the company's audited financial articulations to guarantee the partners of value in administration's authority. As per Volosin (2007) loaning believability hypothesis is like the office hypothesis and it expresses that audited financial articulations would enhance be able to partners confidence in administration's stewardship. Shareholders, supervisors, lenders, workers, government and different gatherings are generally influenced by financial revealing necessities of the administrative offices in the business world.

The real beneficiaries of the yearly reports are the shareholders, incorporating people with moderately little shareholding and vast organizations. Their choice is generally in light of the financial announcing and the performance of the organization's administration, who have a duty to act in light of a legitimate concern for speculators consequently the motivation behind the financial articulations. The auditor is named by the organization's shareholders and reports his outcomes to his customers. The auditor's report is to remark on how precisely the organization introduces its financial circumstance and how it is performing. This ought to promise the shareholders that their venture is secured and furthermore help to decrease the act of deceiving bookkeeping methodology intended to demonstrate the organization in a more great light (Ondieki,

2013). The audit is a procedure intended to assess the believability of data of an organization's financial explanations.

2.3 Determinants of Financial performance

2.3.1 Membership Size

The number of members contributing to a Sacco, the monthly contribution of each member and the amount and type of loans borrowed by each member and the loan duration determines the level of financial Performance. Short term loans like emergency loans contribute less to the Sacco compared to long term loans like development loans. Consequently a higher number of members accumulates larger amount of savings in terms of share capital and monthly contributions than a smaller group of Saccos members. Larger volume of deposits is invested rationally to get returns. Such a great amount of savings is able to meet the increasing demand for loan by members (Wagereka, 2013). Government regulations plays great role to increase member's confidence that they will receive dividends at the end of every financial year. The management of Saccos controls moral hazard to maximize the value of members.

2.3.2 Deposits Investment Policies

Saccos invest member's savings in expectation of better returns. After the members have deposited their money in the Saccos, the management takes the initiative of investing their money in ventures that will bring money plus interest to the investors which is treated as income to them. Member's savings is lend to fellow members at a lower interest than the one charged by commercial banks which motive them to borrow from the Saccos. Saccos managers guided by investment policy can also invest in liquid ventures such as marketable securities hence the top management of Saccos should be

aware of the risks, yield and liquidity of investments. Such an investment policy should be flexible to allow changes in strategy depending on the volume of loan and savings. At times loan demand may be high which forces management to seek for more deposits to cater for high demand caused by short loan maturities. The management of Saccos is quite aware that greater risk and volatility of securities translate into higher yield. They must be extremely careful not to incur losses in such investments. A well-diversified portfolio gives Saccos higher rate of return thus improving its financial performance (Wagereka, 2013).

2.3.3 Government Regulations

Government regulations can greatly affect the financial performance of Saccos either positively or negatively. An example is when, the government limits the entry of new competitors in the same industry forcing the existing businesses to become more profitable by maintaining the same market share even when the market grows bigger. The legal and regulatory framework demands Saccos to be licensed and comply with the stipulated regulations. Saccos should state their internal control mechanisms, amount of capital, infrastructure and liquidity management (Republic of Kenya SASRA report, 2010). However, it is costly to maintain compliance. The management Saccos should invest in management of information systems to automate internal controls and financial report. As such, Saccos financial performance may become quite dismal before the fruits of such investments are realized in the course of time (Wairimu, 2014).

2.3.4 Technology Advancement

Technology advancement has a bearing on financial performance of Saccos. Technology cuts down transaction costs and improves service delivery. Saccos install management

information systems to track loan repayment by members. Chances of loan defaulting is minimal since the management of Saccos has adequate information about the borrowers. The automation of internal controls like procurement, human resource s management and financial reporting lessens the costs of doing business (Wairimu, 2014).

2.4 Empirical Review of the Literature

In this part, the experimental survey explored the past research studies on internal audit autonomy and the financial performance in various Industries.

2.4.1 International Evidence

Magali J (2013) led an investigation on thirty seven (37) provincial SACCOS in Morogoro, Dodoma and Kilimanjaro locales in Tanzania to evaluate the impact of credits hazard administration on country SACCOS' gainfulness. The examination time frame was 2011-2012. The examination connected univariate relapse demonstrate where return on resources and profit for value were the intermediaries for gainfulness and 21 Non-Performing Loans proportion (NPL) were utilized as the intermediary for credit dangers administration. This examination discovered that 70% of rustic SACCOS were making misfortune since they needed compelling credits chance moderation systems. The investigation additionally uncovered that the credit hazard administration altogether affected the benefit of country the SACCOS. In light of the discoveries of this examination the scientist suggested that country SACCOS ought to apply the viable credit dangers relief procedures, be sharp in credits' handling, observing and development, issue advances just to qualified borrowers and build up protection cover for advances. Besides, he prescribed that the legislature should proceed to control and administer the rustic SACCOs in Tanzania.

Nawhera (2012) explored on internal audit work and financial performance of an open association, a contextual investigation of NSSF, Uganda to decide if the internal audit work impacts the performance of NSSF. The particular destinations were to look at the internal audit work in NSSF, evaluate the financial performance of NSSF, and build up the connection between internal audit work on performance of NSSF. Unmistakable and diagnostic research outlines were utilized to look at the discoveries to think of conclusions. A cross sectional research overview configuration was accustomed to utilizing both subjective and quantitative procedures. Subjective information was accumulated utilizing surveys while quantitative information was by separates from optional information for a time of 2010-2011. The aggregate populace was 30 respondents. Stratified examining was utilized and all the populace was inspected. Information was broke down by utilization of SPSS. The impact of internal audit work on performance was performed. The fundamental discoveries were that internal audit work had a noteworthy constructive outcome on performance as far as control condition, chance appraisal, control exercises, data and correspondence, observing and consultative administrations.

Cohen and Sayag (2010) carried out a study on the viability of internal auditing: An observational examination of its determinants in Israeli Organizations in which they utilized the accompanying factors; part – private versus open, proficient capability of internal auditors, nature of audit work, authoritative autonomy, vocation and headway, beat administration bolster in deciding their association with the internal audit adequacy. They found that the support of administration is practically critical to the operation and accomplishment of internal audit adequacy. The investigation likewise uncovered that

different determinants of internal audit adequacy are gotten from support of top administration, for example, capable internal audit staff, creating profession, authoritative freedom for internal audit work are all consequences of choices made by best administration.

Hutchinson and Zain (2009) carried a research on the association between internal audit and firm performance (ROA) with development openings and audit board of trustees freedom in Malaysia. The data was collected using questionnaires and also obtained from secondary data. The sample entailed 60 firms which were recorded on Malaysia Bursa in 2003. The examination made utilization of different relapse investigation to test the relationship between internal audit and firm performance and found a critical connection between experience of internal audit quality and firm performance.

An investigation done by Mihret and Yismaw (2007) on the internal audit viability: An Ethiopian open part contextual investigation in which they utilize the accompanying factors; internal audit quality, support of administration, hierarchical setting and traits from auditee towards deciding the internal audit adequacy. They utilized poll, meeting and documentation for examine instrument lastly found that internal audit adequacy is firmly affected by internal audit quality and support from administration, while hierarchical setting and characteristics of the auditee don't have any solid effect on audit viability.

2.4.2 Local Evidence

Lesirma (2014) carried out a study on the relationship between financial performances and accounting functions of deposit taking Saccos in Nairobi County. Accounting

practices examined included those that facilitate budgeting, review of balance sheet, internal audit function, working capital management and credit casual research design was used. The population under study involved all deposit taking Saccos in Nairobi County. He used questionnaires to collect data and regression analysis to analyze it. He found out there is no noteworthy connection amongst ROA and bookkeeping practices of store taking Saccos in Nairobi County.

Wairimu` (2014) did a research on the effect of corporate governance on financial performance of registered transport Saccos in Nairobi county. The objective of the study was to assess the effect of size of the board, independence of the board sub committees, supervisory role of BODs, leadership duality, frequency of board meetings, board diversity and disclosure of information on the financial performance for the period 2011 to 2013. Questionnaires were used to collect primary data and SPSS software was used to present data. The research findings corroborates that majority of transport Saccos in Nairobi County applies the diversity of board members to large extent. The study found a strong positive relationship between corporate governance and financial performance.

Ondieki (2013) researched on the impact of internal audit on financial performance in business banks in Kenya. The investigation chose one senior administrator in the financial office. Internal audit was taken a gander at from the viewpoint of internal audit measures, proficient competency, internal controls and freedom of internal audit. Quantitative examination and relapse investigation were utilized as information examination strategy. The examination reasoned that there is a positive connection between internal audit and financial performance of banks.

Mugo (2013) carried out an examination to build up the connection between internal control frameworks and financial performance in Technical Training Institutions in Kenya. The Researcher embarked to build up the reasons for constant poor financial performance from the point of view of internal controls. Information was gathered utilizing surveys and additionally audit of accessible reports and records focusing on essentially fund officers, Heads of divisions, administration advisory group individuals and back and accounts staff as respondents from a populace of 37 Technical Training Institutions in Kenya. Information was dissected utilizing the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package. The examination set up a noteworthy connection between internal control framework and financial performance. The examination inferred that internal control frameworks do work in spite of the fact that with hiccups and that there is a huge connection between internal control frameworks and financial performance of Technical Training Institutions in Kenya.

Ndimitu (2011) carried out a study was noted: with responsibility regarding trustworthiness and responsibility, internal auditing offers some incentive to overseeing bodies and senior administration as a target wellspring of autonomous guidance. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analyzed using SPSS tool and the following conclusion that there is a connection between internal audit and financial performance of an association. These conclusions were affirmed after observational proof was gotten from the investigation. However, there is by all accounts little research done

on impact of internal audit on financial performance in associations both globally and locally. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth.

2.5 Conceptual Framework

A conceptual framework is a scheme of concept (variables) which the researcher uses in order to achieve the set objective. A variable is a measure of characteristics that assumes different values. Independent variables are variables that a researcher manipulates in order to determine its influence on another variable. The dependent variable indicates the total influence arising from the influence of the independent variable.

This relationship in figure 2.1 below showing the two types of variable. The independent variable in this study is internal audit functions while the dependent variable is financial performance.

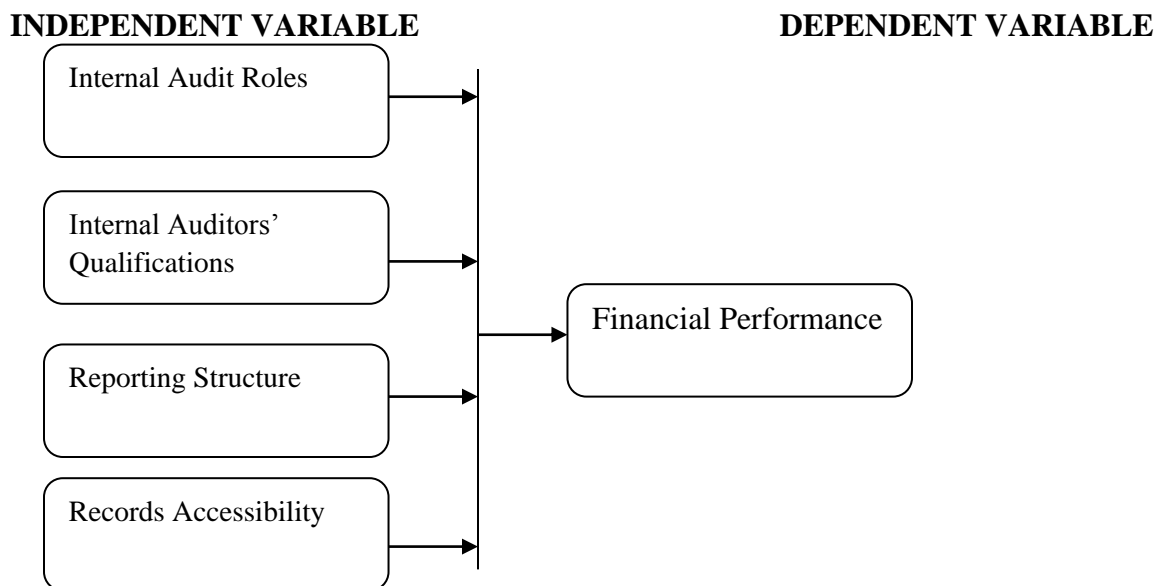


Figure 2.1 Conceptual Framework

2.6 Summary of Literature Review

According to the literature reviewed, several researchers concluded that there is a connection between internal audit and financial performance of an association. These conclusions were affirmed after observational proof was gotten from the investigation. However, there is by all accounts little research done on impact of internal audit on financial performance in associations both globally and locally. This is particularly so in the field of Savings and Credit Cooperative Societies (SACCOs) in Kenya, which in the recent past have had a new regulatory body (SASRA) which licenses, regulates and supervises the institutions. The expectations from the new regulatory framework are that SACCOs would pay more emphasis on their internal audit; however, little attention had been given to establish whether the internal audit of these SACCOs have an effect on their financial performance. Hence this study sought to fill this gap by investigating the effects of internal audit function on financial performance of licensed Savings and Credit Cooperative Societies (SACCOs) in Kenya, Nairobi County specifically.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section describes the research methods to be used in the study. It specifies the research design, target population, sample design, data collection instruments and procedures, and the data analysis and presentation.

3.2 Research Design

Saunders, Lewis and Thornhill (1999) assert that the exploration configuration constitutes the diagram for the gathering, estimation, and investigation of information. It alludes to the general procedure incorporated in the diverse segments of the investigation in an intelligible and legitimate way, in this way, guaranteeing the exploration issue is addressed adequately. This study adopted the casual research design in attempt to establish the relationship between the effectiveness of Internal Audit Function and financial performance of Saccos in Nairobi County

3.3 Population

A target population is an all-around characterized or indicated set of individuals, gathering of things, family units, firms, administrations, components or occasions which are being researched (Ngechu, 2004). There are Ninety-six (96) registered Saccos' with SASRA in Kenya. Out of these, twenty-Six (26) registered Saccos' are in Nairobi County. The target population therefore was all the twenty-six (26) registered Saccos' with SASRA in Nairobi County.

3.4 Sampling and Sample Size

From the population frame the required number of Saccos was selected in order to make a sample. The sample included all the 26 registered Saccos in Nairobi County. The study selected 10 registered Saccos from a targeted population of 26 registered Saccos in Nairobi County. The Saccos selected included 4 large sized Saccos, 3 medium sized Saccos and 3 small sized Saccos.

3.5 Data Collection

The study was based on primary data. The data collection instrument for this study was questionnaire.

3.6 Data Analysis

The study used both qualitative and quantitative techniques in analyzing data. Statistical Package for Social science (SPSS) was used to analyze quantitative data. Regression Analysis was used to establish the relationship between variables.

$Y = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \alpha$ where;

Y is the Financial Performance which is measured by Return on Assets (ROA).

(X1), is Internal Audit Roles (measured by unbiased and objective views)

(X2), is Internal Auditors' qualifications (measured by level of education)

(X3), is Reporting Structure (measured by autonomy and objectivity of internal audit office)

(X4), is Records Accessibility (measured by rate of access to records required)

$\beta_1 - \beta_4$, are coefficients of independent variables

β_0 , is the constant term, α , is the error term

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter discusses the presentation and interpretation of the study findings. The purpose of the study was to establish the effects of internal audit function on financial performance of Savings and Credit Cooperative Societies in Kenya. Primary data was collected using structured questionnaires from the auditors from each Sacco.

The study concentrated on a sample size of 10 respondents where 10 respondents filled the questionnaires and returned them which made response rate 100%.The response rate was good enough to conclude the study.

The data was thereafter analyzed based on the objective of the study and the findings were presented as per the different classes underlined below.

4.2 Organizational Demographics

This section analyses the organizational demographic information of the Saccos. The aim of doing this was to enhance understanding of the number of years the Saccos have been in operation and their sizes in terms of their assets. Data was collected from employees working in accounting and auditing department from each Sacco.

4.2.1 SACCO Years' of Operation

To establish the period, Saccos have been in existence, Auditors were asked to indicate the number of years their Saccos had been in existence. The finding, indicated that among the Saccos interviewed, no Sacco had been in existed for less than 5 years. All the Saccos visited had been in existence for 5 years and above. Result are shown in the table 4.1.

Table 4.1 Years of Operation

Length of Service	Frequency	Percentage Frequency
Less than 5years	0	0.0
5-10 years	3	30.0
10-15 years	5	50.0
Over 15 years	2	20.0
Total	10	100.0

4.2.2 Size of the Sacco

The study surveyed four large sized SACCO which constituted to 40% Of the population, three Medium sized SACCO and three Small sized SACCO. The result are shown in the table 4.2 below.

Table 4.2 Size of the Sacco

Size of the Sacco	Frequency	Percentage Frequency
Large sized SACCO	4	40.0
Medium sized SACCO	3	30.0
Small sized SACCO	3	30.0
Total	10	100.0

4.3 Internal Audit Roles

Most (60%) of the internal auditor interviewed indicated that in their organisation they always have an un-limited access to information they are supposed to audit. None of the internal auditor from any Sacco indicated to lack un-limited access to information they are supposed to audit. The finding is shown in the table 4.3 below.

Table 4.3 Information Access

Size of the Sacco	Frequency	Percentage Frequency
Always	6	60.0
Sometimes	4	40.0
Never	0	00.0
Total	10	100.0

Further, research sought to establish the effect of Internal Audit Function on Financial Performance of Saccos in Nairobi County. Respondents gave rating of the following statement related to internal audit roles and their mean and standard deviation are shown in the table 4.4 below.

Table 4.4 Statements Relating to Internal Audit Roles

Statements	Mean	Std. deviation
How would you assess internal audit's overall performance in your Sacco	2.09	0.11
How important do you think the internal auditor is to your recognition	3.98	0.17
Evaluate internal audit independence on the financial performance from the activities it audits	1.90	0.13

Table 4.4 results shows that the internal audit's overall performance of the Sacco is good and adequate ($M=2.09$, $SD=0.11$) and the internal auditor was found important to Saccos as shown by the mean of 3.98. Further, the result revealed that internal audit independence on the financial performance from the activities it audits was adequate ($M=1.90$, $SD=0.13$). The study was in line with Kevin (1992) who clarifies that the internal audit action is driven by the central audit proficient, he outlines the extent of exercises, specialist, and autonomy for internal auditing is a profitable asset for administration and the board or its equal.

4.4 Internal Auditors' Qualifications

Table 4.5: Statements Relating to Internal Auditors' Qualifications

Statements	Mean	Std. deviation
Is internal auditors' qualification considered in your Sacco	4.09	0.21
Are there procedures in place for checking auditors' qualifications by the management	3.98	0.14
Have you ever been checked for qualifications by the management in your organization	3.90	0.15
How is the internal audit staff remaining current with respect to changes in accounting and financial reporting requirements	4.00	0.23

The findings in table 4.5 indicates that internal auditors' qualification is most considered in Saccos (M=4.09 SD=0.21) and procedures are put in place by the management for checking auditors' qualifications. Respondent indicated that internal auditors' are frequently checked for qualifications by the management in their organization (M=3.90 SD=0.15). Smith (2005) expressed that the improvement of viable relational abilities is an imperative piece of internal auditor's progression potential. Therefore, internal auditors must have profoundly created correspondence level abilities to wind up noticeably a fruitful expert.

4.5 Reporting Structure

In terms of operations and structural most (50%) of the Saccos rated their organisation as an independent, 40% indicated their organisation as Somehow independent whereas the remain 10% said their organisation were not independent. The auditors were interviewed further it was noted that the structure of internal audit in terms of enhancing its objectivity was strong (M=1.09 SD=0.11), It is further indicated that internal audit demonstrate that it recognizes its accountability to the audit committee and management was found to be responsive to internal auditor's previous findings and recommendations

(M=1.09 SD=0.11). The internal audit work has advanced in numerous associations to a position where it is frequently called upon to take initiative in helping the association actualize, survey, or conceptualize hazard administration and control forms inside an association (Malan, 1991). The finding is shown in the table 4.6 below

Table 4.6 Statements relating to Reporting Structure

Statements	Mean	Std. deviation
How would you assess the structure of internal audit in terms of enhancing its objectivity	1.09	0.11
How well does the internal audit demonstrate that it recognizes its accountability to the audit committee	2.98	0.24
Has management been responsive to internal auditor's previous findings and recommendations	2.80	0.16

4.6 Records Accessibility

70% of the respondents indicated that in their Saccos, internal auditors are provided by all records for compiling audit reports. Only 30% said their organisation are not provided with all records for compiling audit reports. Further respondents were asked to rate the following statements rating to records accessibility on the Effect of Internal Audit Function, using a scale of; 5-strongly agree,4-agree,3-disagree,2-not sure,1-strongly disagree. Result are shown in the table 4.7 below.

Table 4.7 Statements relating to Records Accessibility

Statements	Mean	Std. deviation
Are internal auditors considered as advisors to management on matters related to internal controls and governance	4.08	0.31
Does internal audit identify and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness	3.89	0.28
Do audit committee and internal audit functions independence contribute to the financial performance of your Sacco	4.11	0.19

Respondents, strongly agreed that internal auditors are considered advisors to the management on matters related to internal controls and governance (M=4.08 SD=0.31). Respondents also agreed that internal audit identify and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness (M=4.08 SD=0.31) and also established that audit committee and internal audit functions independence contribute to the financial performance of your Sacco (M=4.11 SD=0.19). This agrees with Sarens (2006) that the extent of internal audit for the most part incorporates examination of the viability of the internal control frameworks with the utilization of the financial administration data frameworks to check the exactness and unwavering quality of the bookkeeping records being used by the association.

4.7 Regression Analysis

A regression analysis was applied to establish effect of internal audit function on financial performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya. Thus Financial Performance was regressed on Internal Audit. The results are presented in table 4.8, 4.9 and 4.10.

Table 4.8 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.862 ^a	0.743	0.736	0.012

Results in Table 4.8 shows that Internal Audit function (as measured by four sub-variables or attributes) explained 74.3% of variation in financial performance in Savings and Credit Cooperative Societies (SACCOs) in Kenya ($R^2=74.3$, $F=14.32$, $P<0.05$). 25.7% of the change in financial performance of the Saccos under this study is due to other factors not included in the study. The results of this study concur with Morgan

(1979) who found that Internal Audit Roles has a relationship with financial performance of an organisation.

Table 4.9 Anova^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	154.08	4	38.52	14.32	.002 ^a
Residual	13.45	5	2.69		
Total	167.53	9			

The ANOVA results in table 4.9 show F-value of 14.32, which is significant at $0.002 < 0.05$. This signifies a model fit. It also implies a match between the regression model and the data. This means that the use of regression analysis was justified. Regression coefficients are presented in table 4.10. All the coefficients of the four attributes of supplier selection criteria are statistically significant at $p < 0.05$

Table 4.10 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.216	.018	.211	1.20	.000
Internal Audit Roles	.403	.048	.399	8.39	.001
Internal Auditors' qualifications	.376	.053	.365	7.09	.002
Reporting Structure	.241	.042	.231	5.74	.003
Records Accessibility	.149	.051	.125	2.92	.000

- a) Predictors: (Constant), Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure, Records Accessibility.
- b) Dependent Variable: Financial Performance.

The established regression equation was

$$Y = 0.216 + 0.403X_1 + 0.376X_2 + 0.241X_3 + 0.149X_4$$

The regression equation above has established that holding all the independent variable (Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure and Records Accessibility) constant, other factors influencing Financial Performance will be 0.216 (p

= 0.000 < 0.05). The findings also show that taking all other independent variables at zero, a unit increase in Internal Audit Roles leads to a 40.3% ($B=0.403$, $t=8.39$, $0.001 < 0.05$) increase on Financial Performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya. A unit increase on level of Internal Auditors' qualifications leads to a 37.6% ($B=0.376$, $t=7.09$, $0.002 < 0.05$) increase on Financial Performance of Savings and Credit Cooperative Societies. On the other hand, a 1% increase on reporting structure leads to a 24.1% ($B=0.241$, $t=5.74$, $0.003 < 0.05$) increase on Financial Performance of Savings and Credit Cooperative Societies and a unit increase in records accessibility lead to a 14.9% ($B=0.149$, $t=2.92$, $0.000 < 0.05$) increase on financial performance of Savings and Credit Cooperative Societies in Kenya. This infers that Internal Audit Roles influences the financial performance of Savings and Credit Cooperative Societies in Kenya most followed by Internal Auditors' qualifications, Reporting Structure and Records Accessibility. The regression coefficients were tested for significance at $\alpha=0.05$. Significance occurs at p-values less than 0.05. From the above results, all the predictors are good predictors for the financial performance on financial performance of Savings and Credit Cooperative Societies in Kenya. These findings were consistent with that of (Levitt, 2000) that reporting structure is depends on performance.

4.8 Discussion of the Findings

It was revealed that Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure and Records Accessibility explained 74.3% of variation in financial performance in Savings and Credit Cooperative Societies in Kenya while 25.7% of the change in financial performance of the Saccos was due to other factors not included in the study. Internal audit helps the administration and its audit advisory group in doing its

obligations and giving guidance on financial records. (Monks, 2001). The study established that most Saccos always have an un-limited access to information they are supposed to audit. The internal audit's overall performance in most Saccos was found to be good and adequate and the internal auditor was noted as the key important person to any Sacco. This was in line with Megrath (2001) that auditors survey the presence and estimation of benefits, a wellspring of data on real facts and inconsistencies hence very important to any organisation. The result further established that Evaluation of internal audit independence on the financial performance was adequate. Prediction from regression indicated that a unit increase in Internal Audit Roles leads to a 40.3% increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya.

The internal auditors' need to have the information, aptitude and different abilities need to play out their duties (IIA, 2001). The advancement of these abilities upgrades the auditor's potential, as well as enhance the nature of audits delivered. This study established that, in all Saccos in Nairobi County internal auditors' qualification is considered the most significant thing for better financial performance. Procedures are put in place by the management for checking auditors' qualifications and in most organization managements frequently checks the qualifications of the auditors. This was in line with Smith (2005) that proper staffing of an internal audit office and great administration of that staff are keys to the powerful operation of an internal audit. Prediction by regression indicated that a unit increase on the level of Internal Auditors' qualifications leads to a 37.6% increase on Financial Performance of Savings and Credit Cooperative Societies.

In most Saccos, operations and structural are independent with only very few Saccos been not independent. Further most Saccos were found to have a strong structure of internal audit which enhances Saccos objectivity. Regression result also shown that 1% increase on reporting structure leads to a 24.1% ($B=0.241$, $t=5.74$, $0.003<0.05$) increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya. This agrees with Levitt (2000) who established a significant relationship between reporting structure and performance. However, according to Malan (1991) internal audit work has advanced in numerous associations to a position where it is frequently called upon to take initiative in helping the association actualize, survey, or conceptualize hazard administration and control forms inside an association. Further, the study established that internal audit demonstrate that it recognizes its accountability to the audit committee and management was found to be responsive to internal auditor's previous findings and recommendations.

The internal auditors in most (70%) Saccos are provided with all the records for compiling audit reports and they are considered as the advisors to the management on matters related to internal controls and governance. This was not in line with Sarens (2006) who found that auditors are denied access to a few records which make them to audit a few regions of the bookkeeping records. The study further established that internal audit identifies and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness. Further, the study revealed that Kenyan Saccos audit committee and internal audit functions independence contribute to the financial performance. Findings in regression analysis indicated a unit increase in records accessibility would lead to a 14.9% ($B=0.149$, $t=2.92$, $0.000<0.05$) increase on financial performance of Savings and Credit Cooperative Societies in Kenya.

CHAPTER FIVE: SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the data findings on the analysis of the effect of internal audit function on financial performance of Savings and Credit Cooperative Societies in Kenya, conclusions and recommendations are drawn there to. The chapter is structured into summary of findings, conclusions, recommendations and areas of further studies.

5.2 Summary of Findings

This section presents the key findings as considered under objective in the study. The findings on the demographic information of the respondents greatly enhanced the reliability of the research findings. The study findings indicate that majority of the respondents had worked with the Saccos as an auditor for a long period, hence a good experience in the area, coupled with the relevant years of existence needed to enhance the reliability of the information that was provided. The study revealed that internal audit function i.e. Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure and Records Accessibility explained 74.3% of variation in financial performance in Savings and Credit Cooperative Societies in Kenya.

The study established that most Saccos always have an un-limited access to information they are supposed to audit. The internal audit's overall performance in most Saccos was found to be good and adequate and the internal auditor were noted as the key important people to any Sacco. The result further established that Evaluation of internal audit

independence on the financial performance was adequate. Prediction from regression indicated that a unit increase in Internal Audit Roles leads to a 40.3% increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya.

This study established that, in all Saccos in Nairobi County internal auditors' qualification is considered the most significance thing for better financial performance. Procedures are put in place by the management for checking auditors' qualifications and in most organization managements frequently checks the qualifications of the auditors. Prediction by regression indicated that a unit increase on the level of Internal Auditors' qualifications leads to a 37.6% increase on Financial Performance of Savings and Credit Cooperative Societies.

It was further noted that in most Saccos, operations and structural are independent with only very few Saccos been not independent. Further most Saccos were found to have a strong structure of internal audit which enhances Saccos objectivity. Regression result also shown that 1% increase on reporting structure leads to an increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya. Further, the study established that internal audit demonstrate that it recognizes its accountability to the audit committee and management was found to be responsive to internal auditor's previous findings and recommendations.

Finally, the study established that internal auditors in most (70%) Saccos are provided with all the records for compiling audit reports and they are considered as the advisors to the management on matters related to internal controls and governance. The study further established that internal audit identifies and evaluate the organization's internal control

system as a basis for reporting upon its adequacy and effectiveness. Further, the study revealed that Kenyan Saccos audit committee and internal audit functions independence contribute to the financial performance. Findings in regression analysis indicated a unit increase in records accessibility would lead to an increase on financial performance of Savings and Credit Cooperative Societies in Kenya.

5.3 Conclusion

This study has provided a comprehensive review of the effect of internal audit function on financial performance of Savings and Credit Cooperative Societies in Kenya. The study concluded that Internal Audit Roles, Internal Auditors' qualifications, Reporting Structure and Records Accessibility influences financial performance of Savings and Credit Cooperative Societies in Kenya. Internal audit's overall performance in most is good and adequate and the internal auditor are the key important people to any Sacco. Evaluation of internal audit independence on the financial performance is adequate and a unit increase in Internal Audit Roles leads to an increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya.

Internal auditors' qualification is a significance thing for better financial performance for any Sacco and therefore procedures are put in place by the management for checking auditors' qualifications. Sacco managements frequently checks the qualifications of the auditors to ensure better performance. Further the study concluded that a unit increase on the level of Internal Auditors' qualifications leads to an increase on Financial Performance of Savings and Credit Cooperative Societies. It was also concluded that operations and structural are independent and Saccos have a strong structure of internal

audit which enhances Saccos objectivity. 1% increase on reporting structure leads to an increase on Financial Performance of Savings and Credit Cooperative Societies in Kenya. Further it was concluded that internal audit demonstrate that it recognizes its accountability to the audit committee and management is responsive to internal auditor's previous findings and recommendations.

Finally the study concluded that internal auditors at Saccos are provided with all the records for compiling audit reports and they are considered as the advisors to the management on matters related to internal controls and governance. Internal audit identifies and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness. A unit increase in records accessibility lead to an increase on financial performance of Savings and Credit Cooperative Societies in Kenya.

5.4 Recommendations of the Study

The study established that internal auditors play a very important role in enhancing the financial performance of Saccos. There is therefore the need for the Saccos to adopt effective internal processes and practices that address key internal auditing practices for effectiveness of audit quality. Audit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards. As such the Saccos should consider skills, personal qualities of audit partners and staff, and the training given to audit personnel as the important factors that determine auditor quality.

The study also established that in order to implement good internal audit independence, managers need to know that they should be concerned about the interrelationships between internal audit independence and financial performance. As such, there is need

for the internal auditors to continuously update themselves with the changing times and technologies and sharpen their skills. By applying skills to the most critical points, building personal and professional credibility and recognising and responding to the needs, internal auditors can become indispensable thus speeding good governance and enhancing efficiency of internal audit.

The management of Saccos should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

The head of the internal audit department should be responsible to the management in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

5.5 Limitations of the Study

This study was not without limitations. The study was only limited to twenty-Six (26) registered Saccos' in Nairobi County; however, other Saccos' in Kenya were not included in this study.

The research was also restricted to establish the effect of Internal Audit Function on Financial performance of Saccos.

The study used questionnaire to collect data since the time for data collection was restricted to two weeks only.

Descriptive research design method was used where variables cannot be controlled by the researcher.

5.6 Areas for Further Studies

The same study should be carried in medium size enterprises with operations in other industries such the financial sector, service sector, ICT sector among others to compare the findings. This would be a modest attempt to enhancing formulation of policies regarding the effect of internal audit function and financial performance of firms in Kenya.

There is need for a study to be conducted to determine the challenges facing internal audit in Saccos, this will help in enhancing the internal audit in the Saccos in Kenya and thus positively affecting their performance. This research recommends a similar study to be done but concentrate on the parastatal and government ministries.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: Organizational Demographics

Please provide the required information by filling in the blanks where space has been provided or by ticking [☐] against the most appropriate answer.

1. Department _____
2. Designation/Position-_____
3. For how long has the SACCO been operating in Kenya?
 - A) Less than 5years [☐]
 - B) 5-10 years [☐]
 - C) 10-15 years [☐]
 - D) Over 15 years [☐]
4. What is the size of your SACCO in terms of market share and deposits?
 - A) Large sized SACCO [☐]
 - B) Medium sized SACCO [☐]
 - C) Small sized SACCO [☐]
5. What is the current membership of your SACCO? [☐]

SECTION B: The effect of Internal Audit Function on Financial Performance of SACCOs

Internal Audit Roles

6. Does the internal auditor have an un-limited access to information they are supposed to audit before?
 - Always [☐]
 - Sometimes [☐]
 - Never [☐]
7. What is your level of agreement with the following statements that relate to internal audit roles on the Effect of Internal Audit Function on Financial Performance of Saccos in Nairobi county?(1-strong,2-adequate,3-needs improvement,4-important,5-not important)

Statement	1	2	3	4	5
How would you assess internal audit's overall performance in your Sacco					
How important do you think the internal auditor is to your recognition					
Evaluate internal audit independence on the financial performance from the activities it audits					

Internal Auditors' Qualifications

8. What is your level of agreement with the following statements that relate to internal auditors qualifications on the Effect of Internal Audit Function on Financial Performance of Saccos in Nairobi county?(1-strong,2-weak,3-poor,4-frequently,5-rarely)

Statement	1	2	3	4	5
Is internal auditors' qualification considered in your Sacco					
Are there procedures in place for checking auditors' qualifications by the management					
Have you ever been checked for qualifications by the management in your organization					
How is the internal audit staff remaining current with respect to changes in accounting and financial reporting requirements					

Reporting Structure

9. How do you rate the independence of internal auditors in terms of operations and structural in your Sacco?

- Very independent []
- Somehow independent []
- Not independent []

10.What is your level of agreement with the following statements that relate to reporting structure on the Effect of Internal Audit Function on Financial Performance of Saccos in Nairobi county?(1-strong,2-weak,3-needs improvement,4-inadequate)

Statement	1	2	3	4
How would you assess the structure of internal audit in terms of enhancing its objectivity				
How well does the internal audit demonstrate that it recognize its accountability to the audit committee				
Has management been responsive to internal auditor's previous findings and recommendations				

Records Accessibility

11. In your Sacco, are you provided with all records for compiling audit reports?

Yes ☐

No ☐

If no, which areas that you do not access for verification when doing auditing?

12.What is your level of agreement with the following statements that relate to records accessibility on the Effect of Internal Audit Function on Financial Performance of Saccos in Nairobi county?(1-strongly agree,2-agree,3-disagree,4-not sure,5-strongly disagree)

Statement	1	2	3	4	5
Are internal auditors considered as advisors to management on matters related to internal controls and governance					
Does internal audit identify and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness					
Do audit committee and internal audit functions independence contribute to the financial performance of your Sacco					

Financial performance

How would you rate the financial performance of your Firm in the following areas? Use a scale of 1 to 5 on these attributes where 5=improving fast, 4=improving slowly, 3=neutral, 2=Declining gradually, 1= decreasing drastically.

Statement	1	2	3	4	5
Sales growth					
Profits/return on equity					
Investments					
Share capital					
Customer base					

Thank you, for your response

APPENDIX II: LIST OF SACCOS

1. MWALIMU
2. HARAMBEE
3. AFYA
4. NDEGE CHAI
5. STIMA
6. JAMII
7. KENYA POLICE
8. UNITED NATIONS
9. UKULIMA
10. TAIFA
11. KENYA BANKERS
12. WINAS
13. IMARISHA
14. TELEPOSTA
15. METROPOLITAN
16. UNAITAS
17. MAGEREZA
18. CHAI
19. BORESHA SACCO
20. HAZINA
21. KENPIPE
22. YETU
23. NACICO
24. SOLUTION SACCO
25. WANANDEGE
26. SHERIA