

**EFFECTS OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE OF
FARMERS' COOPERATIVE SOCIETIES IN TRANS-NZOIA COUNTY,
KENYA.**

BY

LAMECK CHELOTI

B151/4233/2018

**A THESIS SUBMITTED TO THE BOARD OF POSTGRADUATE STUDIES
IN FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER IN BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS AND ECONOMIC
JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

2023

DECLARATION

Declaration by the student

This thesis is my original work and has not been presented in any other University or College for the award of degree, diploma or certificate.

LAMECK CHELOTI

B151/4233/2018

Signature..... Date.....

Approval by Supervisors

This research thesis has been submitted for examination with our approval as the Jaramogi Oginga Odinga University of Science and Technology Supervisors.

DR. VITALIS MOGWAMBO.

DEPARTMENT OF ACCOUNTING AND FINANCE

SCHOOL OF BUSINESS AND ECONOMICS.

Signature..... Date.....

DR. DOROTHY ONJWA ONYANGO.

DEPARTMENT OF TOURISM AND MANAGEMENT SCIENCES

SCHOOL OF BUSINESS AND ECONOMICS.

Signature..... Date.....

ACKNOWLEDGEMENT

I appreciate Almighty God for my excellent health,safety and availability of resources during my study period. Sincere thanks to Dr. Vitalis Mogwambo and Dr. Dorothy Onjwa, who served as my supervisors, for their unwavering support and guidance when I developed this thesis for many years. Thanks to the department chairperson at the school of business and economics, and everyone else who helped in some way to make this study a reality. I am sincerely appreciative of the guidance, help and academic support I received from my lecturers during coursework and from my fellow students and more so Teresa Passy Akuno at Jaramogi Oginga Odinga University of Science and Technology School of Business and Economics.

DEDICATION

This work is devoted to my dad Maurice Wanambisi Cheloti, mum Irene Nakhungu Cheloti and entire family. Thank you very much for your encouragement, support and prayers.

TABLE OF CONTENTS

DECLARATION.....	i
ACKNOWLEDGEMENT.....	ii
DEDICATION.....	iii
TABLE OF CONTENTS	iv
LIST OF ACRONYMNS	vii
LIST OF FIGURES	viii
LIST OF TABLES	ix
ABSTRACT.....	x
CHAPTER ONE	1
INTRODUCTION TO THE STUDY.....	1
1.1 Background of the study	1
1.2 Problem statement.....	6
1.3 Research Objectives.....	6
1.4 Research Hypothesis.....	7
1.5 Scope of the study.....	7
1.6 Significance of the study.....	7
1.6.1 The Farmers’ Cooperative Societies Management	7
1.6.2 Policy Makers	8
1.6.3 Potential Investors.....	8
1.6.4 Academicians and Researchers.....	8
1.7 The Study's Limitations	9
1.8 The study's assumptions.....	9
CHAPTER TWO	10
REVIEW OF LITERATURE.....	10
2.0 Introduction.....	10
2.1 Theoretical review	10
2.1.1 Agency Theory.....	10
2.1.2 Institution Theory.....	11
2.1.3 Stakeholders Theory	12
2.2 Empirical literature review.	13
2.2.1 Control Activities and Financial Performance.....	13
2.2.2 Information and Communication and Financial Performance.....	15

2.2.3 Control Environment and Monitoring and Financial Performance	19
2.3 Research Gap	21
2.4 Conceptual framework.....	24
CHAPTER THREE.....	25
RESEARCH METHODOLOGY	25
3.0 Introduction.....	25
3.1 Research design	25
3.2 Study area.....	25
3.3 Target population	25
3.4 Sample design and size	26
3.5 Data Collection Instruments	27
3.6 Validity and reliability of the research instruments	28
3.7 Ethical consideration.....	28
3.8 Data Analysis and Presentation	29
CHAPTER FOUR.....	31
RESULTS AND DISCUSSION	31
4.0 Introduction.....	31
4.1 Response rate	31
4.2 Personal Information.....	31
4.3 Control Activities.....	33
4.5 Risk Assessment on Financial Performance.....	37
4.6 Risk Control Environment on Financial Performance.....	40
4.7 Monitoring on Financial Performance.....	41
4.8 Financial Performance	44
4.9 Inferential Statistics	45
CHAPTER FIVE	47
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	47
5.1 Introduction.....	47
5.2 Findings Summary	47
5.3 Conclusions.....	49
5.4 Implications and Recommendations	50
5.5 Further Research	50
REFERENCES.....	51

APPENDIX 1: LETTER OF APPROVAL.....	61
APPENDIX 2: LETTER OF AUTHORITY	62
APPENDIX 3: NACOSTI RESEARCH LICENSE	63
APPENDIX 4: RESEARCH QUESTIONNAIRE.....	64
APPENDIX 5: INTERVIEW GUIDE	72
APPENDIX 6: TARGET POPULATION.....	74
APPENDIX 8: TRANS-NZOIA COUNTY MAP.	75

LIST OF ACRONYMNS

ANOVA	Analysis of Variance
COSO	Committee of Sponsoring Organizations
EPS	Earning Per Share
FOs	Finance Officers
GAAPS	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
ICS	Internal Control Systems
IFRS	International Financial Reporting Standards
ILRI	International Livestock Research Institute
KALRO	Kenya Agricultural Livestock Research Organization
KEPHIS	Kenya Plants Health Inspectorate Service
KPHC	Kenya Population Housing Census
LDC	Least Developed Countries
NACOSTI	National Commission for Science Technology and Innovation
OPM	Operations Manager
ROA	Return on Assets
ROE	Return on Equity
RoK	Republic of Kenya

LIST OF FIGURES

Figure 2.1: Conceptual Framework	24
---	----

LIST OF TABLES

Table 3.1: Target Population.....	26
Table 3.2: Number of respondents from each sub-county Farmer' Cooperative Societies.....	27
Table 3.3: Reliability Test.....	28
Table 4.1: General Information.....	32
Table 4.2: Descriptive Statistics of Control Activities on Financial Performance	33
Table 4.3: Descriptive Statistics of Information and Communication on Financial Performance	36
Table 4.4: Descriptive Statistics of Risk Assessment on Financial Performance.....	37
Table 4.5: Descriptive Statistics of Control Environment on Financial Performance	40
Table 4.6: Descriptive Statistics of Monitoring on Financial Performance.....	41
Table 4.7: Descriptive Statistics of Internal Controls on Financial Performance.....	44
Table 4.8: Model Summary of Internal Controls on Financial Performance.....	45
Table 4.9: ANOVA of Internal Controls on Financial Performance	45
Table 4.10: Coefficients of Internal Controls on Financial Performance	46

ABSTRACT

Farmers' cooperative societies work hard to increase income, create jobs and lessen poverty. However, because of administrative and financial issues, many of these societies in Kenya and more so Trans-Nzoia have not yet reached their full potential. Additionally, they have not been able to service their members as expected and their contribution to economic growth has been insignificant. Therefore, it was necessary to carry out a study to investigate effects of internal controls on financial performance of Farmers' Cooperative Societies in Trans-Nzoia County. The specific objectives were: to examine the effects of controls activities, to investigate the effects of information and communication, to determine the effects of risk assessment, to examine the effects of control environment and to determine the effects of monitoring on the financial performance on FCSs in Trans-Nzoia County. This study sought to find the reasons and solutions to make them perform better. This study will also help investors in the management issues and policy making on the informed decision on internal control measures. The research was anchored upon three theories namely: Agency being the main theory, complemented by Institutional theory and Stakeholder theory to explore the effects of internal controls on the financial performance of Farmer Cooperative Societies in Trans-Nzoia County. This study embraced time series design employing both quantitative and qualitative data analysis methods. The Farmers' Cooperative Societies under study mostly produce coffee and tea. This study utilized Yamane Taro to sample 99 employees from the 26 Farmers' Cooperative Societies selected in Trans-Nzoia County. The research used purposive sampling to select 3 Directors from the Farmers' Cooperative Societies understudy in Trans-Nzoia County. Questionnaires were used to gather quantitative data while interview schedules were used to collect qualitative data. Thematic analysis was done to evaluate qualitative data, descriptive and inferential statistics were utilized to analyze quantitative data. The regression analysis revealed a strong positive relationship between the Internal Controls and Financial Performance ($R=0.985$; $p\text{-value} < 0.05$). The study was concluded and recommended that; there was need for the management of the Farmers' Cooperative Societies to adopt control activities to enhance financial performance, consider an effective information and communication system to promote its financial performance, ensure that they sanction risk assessment strategies for better financial management, put in place strong control environment to enhance financial performance, need to enact effective monitoring process to improve financial performance and there was also a need to have an effective and efficient internal controls so that they can realize better financial performance.

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Background of the study

Internal controls are crucial to all business units, but they are especially important for the Farmers' Cooperative Societies. Farmers' Cooperative Societies in Kenya rule the agricultural industry and contribute to the economic prosperity. Internal control's overarching goal is to assist the organization in attaining its objectives. Internal controls are established with the aim of maximizing efficiency and effectiveness in operations, where effectiveness points towards attaining definite goals set and intended results; on the other hand, efficiency deals with proper utilization of resources and so guaranteeing a constructive correlation between the resources utilized and the results attained (COSO, 1992). Additionally, internal controls guarantee the accuracy of financial statements. Financial reports convey details about the assets, liabilities, and owner equity of an entity. Business compliance with all governing principles, both inside and outside the jurisdictions in which they operate, is ensured by internal controls. Internal controls are crucial to ensuring compliance with laws, rules, and regulations in order to prevent fines and damages to the business as a result of non-compliance. According to Okezie (2017), internal auditing is administrative supervision with the mission of ensuring the implementation and follow-up of business policies on fraud detection and prevention. Additionally, it is a self-sufficient assessment position developed within an organization to track, assess, and report on its operations. An entity's management cannot be conversant with every aspect of the organization. Internal auditing becomes the principal means of supervising the organization's decisions as the 'watch dog' of other regulations created by the organization's management board. It encompasses checks and balances, monitoring and avoiding fraud, embezzlement, and misuse of funds, and is carried out, among other tasks, by the internal audit department. As a result, internal auditing becomes a method of monitoring implementation process by managers in business organizations to improve record accuracy and reliability. Internal auditing places a strong emphasis on evaluating and raising employee performance in order to accomplish organizational objectives as quickly and cheaply as possible.

An organization without internal controls may experience issues including but not limited to financial theft, bribery, embezzlement and tax evasion. The problem of fraud

in the Farmers' Cooperative Societies is caused by inadequate knowledge on the entrepreneurs, little or insufficient employee expertise with respect to their assigned role, shortage of training and lack of internal control systems. Internal control measures would be used to curb or eliminate these errors. If implemented appropriately, internal audit, a crucial element of internal control, will examine the actions of other departments or personnel.

Financial performance includes the collection and utilization of cash as well as their return on investment, share capital, profitability and losses of a firm over a given time period. (IAI, 2016). A company's ability to generate income from its principal business is measured by its financial performance. Shareholders receive information about a company's overall health through financial performance. It's an overview of its financial health and the work its administration is doing. The financial reports that are used to evaluate overall financial performance are the balance sheet, the income statement, and the cash flow statement. Among the metrics are earnings, return on equity (ROE), return on assets (ROA), and earning per share (E.P.S.) (Gichaaga, 2017). A firm is considered to have a good financial performance if it can meet the interest of all its shareholders. Shareholders perceive firm's financial performance as the ability to distribute dividends from capital investments, financial institutions look for credit solvency, in that the firm has ability to pay back its credits on time, employees want stable jobs with maximum financial benefits and the government seeks firms to be efficient, pay taxes and create employment opportunities (Mukhoma,2014).

Farmer' cooperative societies are associations of producers who come together to improve the production and marketing of their products. Members are educated on quality farming practices, saving and investment of capital. They as well obtain credit, equipment and production supplies. They pool resources that enable them achieve benefits that cannot be achieved alone (Francesconi and Heerink 2011).

Agricultural cooperatives are the foundation of economic development in most countries across the globe and more so LDCs. However, members encounter various challenges in a bid to create wealth and improve their living standards. Many livelihoods of member farmers have been improved through growing high yield crops

and rearing of high breed livestock, thus generating more income, create jobs and reduce poverty. Members are also educated on saving and investment of capital. Through coming together members have been able to achieve benefits that cannot be achieved alone. According to Akira Kurimoto (2014), cooperative societies in various Japanese sectors have followed varied development paths, requiring the application of suitable approaches in order to comprehend them and encourage positive financial performance. He further argued that government systems such as institutional credit systems had a significant impact on cooperative societies as farmers pressed government to set price beyond equilibrium which triggered overproduction and influenced financial performance. In Japan, farmers make up the single largest user and manager group for land, water, and other ecological resources. The vast majority of small-scale farmers need access to information and services offered by agricultural cooperatives societies. Adoption of right technology and innovative ideas increase agricultural output and returns for the farmers.

According to Kristina Yngwe (2014), farmers' cooperative groups have a major role in Sweden's economy. She said that since the agricultural sector employs more than 57,000 full-time workers and is primarily focused on the production of milk, pork, wheat, and barley, it was essential to put more emphasis on the financial performance of these organizations.

Farmers' cooperative societies have been widely recognized as having a significant positive impact on food security, wealth creation, employment creation, and the reduction of poverty in Africa. According to a 2015 study by Odetola et al., cooperative societies in Nigeria had an impact on the welfare of their members as well as the creation of capital and the fight against poverty. The findings, however, indicated that formal financial institutions were not effectively serving rural poor farmers, as they resisted extending loans to them because of the bureaucratic regulatory processes and expensive lending fees. Therefore, cooperative societies remained vital to them as they were better positioned to recommend them to lending institutions with respect to acquisitions of credit facilities. There is need for formulation of more robust policies to provide universal foundation for growth in the agricultural sector to ease finance access to cooperative members so that they can do more and benefit from their output.

According to Faharat (2009), Egypt's agriculture sector generated around 14.5% of GDP in 2006. He pointed out that agricultural cooperatives contributed in capital

formation of the country. However, they are faced with the problem of reaching a balance between enhancing farmers' social and economic potential and safeguarding them from the integrity and quality of cooperative management, whose competence has been put into doubt on numerous occasions. This sector supports livelihoods of many people in the country and increased government involvement is a necessity.

In Kenya, Farmers' cooperative societies form the largest number of cooperatives. They primarily focus on coffee, macadamia, tea, dairy, pyrethrum, cotton and horticulture. These cooperatives educate farmers on quality farming practices, marketing of their products, saving and investment of capital. Agriculture continues to be foundation of the Kenyan economy as it plays a bigger role than any other industry in providing employment opportunities to a significant part of Kenyans. According to KNBS economic survey (2017), (30%) new jobs both formal and informal were created in the Agricultural sector, a huge percentage compared to other segments in the economy. A total of 79% of all export revenues, 26% of GDP and 76% of all people's livelihoods were directly or indirectly given by the agricultural sector in 2016. According to Mwangi (2010), cooperative societies can create more jobs to the unemployed while also boosting credit and financial advisory services to their members. They have, however, experienced a number of roadblocks in their efforts to do well financially. These issues are strongly linked to the way finances are handled in cooperative societies, and as a result, members are living in poverty as a result of their organizations' poor financial arrangements.

Vision 2030 has it that that if this sector is given life, it can collaborate with other economic sectors to raise the present economic growth percentage from 5.6% to 10% by 2025. This is because FCSs are important for encouraging economic development (RoK, 2017). Due to their potential to increase national development, generate jobs and alleviate poverty, which affects more than 56% of population in Kenya. Farmers' Cooperative Societies should therefore receive more attention (RoK, 2018).

Farming is the main economic activity here. Maize, tea wheat, coffee, sunflower, beans and potatoes are the main crops grown. They also undertake apiculture, dairy, poultry and rearing of animals for meat. Members have similar goals thus they have established cooperative societies to achieve their objectives. Production of farm produce is really

good and FCSs are sufficiently supplied with the farm output but still operate poorly in that they don't meet the needs of the shareholders. Many problems such as theft of produce from the stores, corruption especially on doctored weighing scales where members are given reduced weights of their produce in kilo grams and embezzlement of funds by management of these cooperatives. Such problems have caused majority of the cooperatives to perform poorly and even some end up collapsing.

The 2018 report International Finance Corporation and World Bank emphasized the need for success of Farmers' Cooperative Societies to promote the government's agenda of employment creation, income generation and the overall economic expansion for the third world countries as Agriculture is the backbone of their economy. Aimable Ineza (2016) averred that 75% Farmers' Cooperative Societies in least developed countries have failed in the first three years of their establishment and operations owing to failures of omission or commission in their organizational controls systems. Republic of Kenya (2016) report on survey study also indicates that majority of FCSs ail from poor financial management practices making some to close down whereas a majority struggle to remain financially afloat without knowing causes of their financial predicaments. Compounding the problems of bureaucratic regulatory regime, increased licensing fees, high cooperate and corporation taxes and longtime taken by the judicial system to settle FCSs business disputes, FCSs in Kenya have suffered from poor or inadequate internal control practices. ROK (2019) has linked poor audit practices to entrepreneurs' illiteracy, and misconceptions about internal controls high cost relative to the benefits associated with it. As a result, this study aimed to examine how internal controls affect financial performance, particularly for Farmers' Cooperative Societies in Trans-Nzoia County.

Nearly all internal controls studies have only focused on large companies leaving out small companies. Many researches on FCSs haven't attempted to look at internal controls, instead focusing on other areas, such as Kimetto's (2017) analysis of the factors influencing agricultural cooperative societies' financial performance. This study which concentrated on FCSs internal controls, attempted to close this gap.

1.2 Problem statement.

In least developed countries (LDCs), particularly in the Kenyan economy, Farmers' Cooperative Societies have remained crucial for the reduction of poverty, generation of income, and creation of jobs. The Kenya National Bureau of Statistics report on Farmers' Cooperatives survey 2019 noted that Agricultural sector supported more than 35% of newly created jobs in 2017, 2018 and 2019 (Republic of Kenya, 2019).

Trans-Nzoia County is known for many agricultural based producer cooperatives that have earned it respect in relation to the Kenyan economy. Trans-Nzoia is termed by many as Kenyan food store; as a result various organizations both governmental like Kenya Plant Health Inspectorate Service (KEPHIS), Kenya Agricultural and Livestock Research Organization (KALRO) and non-governmental such as International Livestock Research Institute (ILRI) have made countless interventions to strengthen Farmers' Cooperative Societies (Trans-Nzoia county Agricultural report 2019). Stakeholders are dissatisfied with operation of the FCSs because with such interventions still over 55% Farmers' Cooperative Societies have not been performing well and thus unable to serve its members effectively, for example Fedha Producer cooperative society being the latest to collapse as it failed in its creditworthiness test, drop in sales, restructuring terms of service of employees and even retrenching others. In Trans-Nzoia County, it was crucial to highlight how internal controls affect financial performance of Farmers' Cooperative Societies in order to determine whether or not poor application of control activities, risk assessment, monitoring, control environment, and information and communication led to the failure of the business.

1.3 Research Objectives

The main goal of the research was to analyze the impact of internal controls on financial performance of FCSs in the Trans-Nzoia County.

The specific research objectives included;

- i. To determine the effect of control activities on financial performance of Farmers' Cooperative Societies in Trans-Nzoia County.
- ii. To determine how information and communication affect Farmers' Cooperative Societies financial performance in Trans-Nzoia County.
- iii. To ascertain the effect of risk assessment on financial performance of Farmers'

Cooperative Societies in Trans-Nzoia County.

- iv. To determine the effect of control environment on financial performance of Farmers' Cooperative Societies in Trans-Nzoia County.
- v. To determine the effect of monitoring on the financial performance of Farmers' Cooperative Societies in Trans-Nzoia County.

1.4 Research Hypothesis.

This study was guided by the following research hypothesis:

H_{01} : Control activities has no significant effect on the financial performance Farmers' Cooperative Societies in Trans-Nzoia county

H_{02} : Information and communication has no significant effect on the financial performance Farmers' Cooperative Societies in Trans-Nzoia county

H_{03} : Risk assessment has no significant effect on the financial performance Farmers' Cooperative Societies in Trans-Nzoia county

H_{04} : Control environment has no significant effect on the financial performance Farmers' Cooperative Societies in Trans-Nzoia county

H_{05} : Monitoring has no significant effect on the financial performance Farmers' Cooperative Societies in Trans-Nzoia county

1.5 Scope of the study

This study was done in Trans-Nzoia County. Trans-nzoia County has a population of approximately 990,341 (KPHC 2019) persons, its headquarter is in Kitale Municipality. Over 150,000 are farmers, with over 100,000 being members of FCSs. My study focused on 26 FCSs of the 50 FCSs in Trans-Nzoia county. This study was restricted to agency theory, institutional theory and stakeholder theory to investigate how internal controls affect financial performance (return on investment, sales growth, profitability and loses, share capital and accountability) especially in Farmers' Cooperative Societies. More emphasis was placed on the last five years of the company's existence which is between 2018 -2022 this is owing to the problem of records storage in most Farmers' Cooperative Societies.

1.6 Significance of the study

1.6.1 The Farmers' Cooperative Societies Management

The Farmers' Cooperative Societies management included managers, directors, entrepreneurs and potential investors would appreciate the contribution of this study on

emphasis on the compliance with internal audit controls especially on financial performance of Farmers' Cooperative Societies. This is owing to the information by this study on how internal controls would lead to increased sales and profitability making Farmers' Cooperative Societies gain competitive advantage against their competitors.

1.6.2 Policy Makers

The research findings will be useful to Farmers' Cooperative Societies policymakers because they will give them more understanding of how internal controls would enhance Farmers' Cooperative Societies financial stability. The effective internal control mechanisms such as risk assessment, control environment, monitoring and communication and information would increase accountability and transparency, return on investment, sales growth, profitability, and increased share capital in Farmers' Cooperative Societies which are key parameters of financial performance. Policy recommendations will also be provided highlighting areas of shortfall by Farmer' Cooperative Societies leading to poor financial performance.

1.6.3 Potential Investors

Potential investors will get necessary information needed to make more informed decisions on the need for compliance with internal control measures makings Farmer' Cooperative Societies to be properly governed.

1.6.4 Academicians and Researchers

This study will provide new analyzed literature, findings and would greatly assist new researcher to further build the existing body of knowledge.

1.7 The Study's Limitations

While conducting the research, the researcher encountered several problems such as financial and time constraints. There were also minor restrictions, such as issues with farmers' cooperative accessibility in Trans-Nzoia County. Further, the researcher found it difficult to persuade the respondents' willingness to contribute data intended for academic purposes. Because the questionnaires were filled out during working hours, there was missing information due to respondents' time constraints. Nonetheless, the researcher made prior appointments and the questionnaires were administered subsequently.

1.8 The study's assumptions.

The study's primary assumption was that participants gave honest opinions during the research period.

CHAPTER TWO

REVIEW OF LITERATURE

2.0 Introduction

This chapter looked into the theoretical review and empirical literature. The theoretical analysis helped to clarify the study's perspective and directed the study's framework. The knowledge gap that this study attempted to close was clearly identified by the empirical literature.

2.1 Theoretical review

The study was anchored on three theories: Agency theory being the main theory and complemented by Institution theory and Stakeholder theory to investigate how internal controls affected financial performance (return on investment, sales growth, profits and losses, share capital and accountability) especially in Farmer' Cooperative Societies.

2.1.1 Agency Theory

Meckling & Jensen proposed the agency hypothesis in 1976. The theory provided solutions to issues that may arise in relationships between principals and their agents. Therefore, hiring a trustworthy auditor serves management's interests as well as those of third parties. The inability of the principal to independently confirm what the agent is actually doing and the issues that arise when the principal and the employee have divergent perspectives on risk, are the two issues that agency theory aims to address. Depending on their individual risk tolerance, the principal and agent may be more or less motivated to act in certain ways (Meckling and Jensen, 1976).

Because internal control is one of the numerous strategies employed by businesses to deal with the agency issue by cutting agency expenses, which impact both the overall performance of the partnership and the benefits of the principal, our theory is relevant to this study (Payne, 2003). Internal audit procedures lessen information asymmetry and investor risk by improving the provision of additional information to the principle (shareholder) regarding the actions of the agent (management). Internal auditing, along with other intervention measures like financial reporting and external audit, according to agency theory, maintains effective contracting between owners and management (Adams, 1994; Davison, Goodwin-Stewart, & Kent, 2015). The existence of internal audit within entities, as well as some of its characteristics, such as its size and the

separation between financial and operational auditing, may be explained through agency theory. Agency theory can be empirically analyzed if cross-sectional changes in internal auditing strategies conform to the different contracting relationships arising from diverse organizational structures (Meckling & Jensen, 1976).

In addition, the theory accepts that any inaccurate information about the connection, objectives, or performance of the agent portrayed may be harmful and pose a moral hazard. Because they are unable to accurately complete their given duties and are subject to adverse selection and moral hazard, agents are hindered from producing as expected. As a result, the agency theory is predicated on the notion that owners and representatives enter into rational agreements in order to maximize their wealth (Jensen & Meckling, 1976).

2.1.2 Institution Theory.

A different description that can be used to comprehend the implementation and creation of control procedures inside companies is provided by institutional theory. Meyer and Rowan, DiMaggio and Powell developed this more sociologically oriented approach in 1977 and 1983 respectively. Accounting and organizational research theories are taking institutional theory seriously (Dillard, Rigsby & Goodman, 2004). According to this view, companies build their structures, procedures and systems more or less out of necessity rather than using a logical economic cost-benefit analysis.

Meyer and Rowan (1977) interpret this to mean that: Due to their institutionalization in society and the pressure from prevalent rationalized notions of organizational activity, organizations are compelled to adopt practices and procedures. Regardless of whether the new policies and processes are effective right away, organizations that do this increase their chances of being credible and surviving. Organizational principles, which are made up of the many control roles, functions, procedures, and structures, alter and acquire symbolic meanings that show societal responsibility and compliance. This also applies to Farmer' Cooperative Societies for Trans-Nzoia County. Organizations with the appropriate arrangements can evade a thorough examination of their operational processes. Meyer and Rowan (1966) elaborated on Berger and Luckmann's work by emphasizing the significance of established regulations. These social divisions can be bolstered by general agreement or by text of the legislation. Actors in the business

community must think about and deliberate these regulations because they incorporate conventional tasks that may be seen as realities of organizational life, regardless of whether they are compliance personnel, risk management officers, auditors, managers, directors, or other types of practitioners outside or within of organizations. Different social processes go through an institutionalization process in order to eventually take on the status of regulations in contemporary society. The environs as well as informal and legal norms that are enforced on administrative operations when recurrent patterns of behavior create institutions, or institutionalized rules, are used to explain organizational phenomena.

2.1.3 Stakeholders Theory

Any group or individual that has an impact on or has the potential to have an effect on the success of the organization's objectives is considered a stakeholder, according to the traditional definition (Freeman 1984). In essence, the concept of stakeholders is a redefinition of the organization. The primary emphasis of the concept is on the ideal organization and its design. Friedman (2006) asserts that the organization should be viewed as a collection of stakeholders, and that managing their interests, goals and points of view should be its top priority. The directors of a corporation are thought to handle this stakeholder management. On the one hand, the company's managers must run the business to their advantage, but they must also make sure that all stakeholders have access to their rights and participate in decision-making process.

A stakeholder method lays a heavy emphasis on the proactive administration of the work environment, connections, and the formation of common interests in order to create business plans (Friedman & Miles, 2001). This has a lot to do with FCS cases in the Trans-Nzoia County. The interests of stakeholders may be diverse and may even conflict with those of a company, such as those related to social responsibility, the environment, or working conditions (Friedman & Miles, 2006). This relates to the idea put forth by Freeman (1999) that managing stakeholders could be viewed as controlling potential conflict brought on by divergent interests. Waddock (2001), in his discussion of corporate responsibility and citizenship, asserts that developing and implementing ethical operating procedures that are fully integrated into all facets of the business' strategy, decision-making, management, and planning procedures are essential components of being a good corporate citizen.

2.2 Empirical literature review.

The empirical literature dealt with the correlation between the Internal Controls and Financial Performance.

2.2.1 Control Activities and Financial Performance

A connection between reliable financial records and efficient internal controls was suggested by Amaka (2017). This study utilized a research design based on surveys since data was collected from primary and secondary sources, and the Taro Yamane sampling method was employed to determine the sample size. Out of the four research questions, three hypotheses were developed at a 5% level of significance using the regression co-efficient study method, and the Z table was also employed to compare the computed value of significance B and table value. According to Amaka's analysis, internal control is vital to the development and productivity of the business because it assesses managerial performance.

Accounting control procedures and financial results of government-owned businesses research conducted by Kiabel (2007), with particular reference to enterprises controlled by the Rivers State. The study's correlational research approach employed structured questionnaires and interviews to collect data. According to the study, there is only a marginally important connection between accounting control procedures and government-owned company financial performance. This finding, according to the author, was mostly brought about by the majority of the examined firms using accounting control measures in an insufficient and poor manner. The study findings revealed that the financial performance of government-owned firms had no substantial influence on accounting control measures. According to the findings, state-owned businesses should implement appropriate budgeting strategies to enhance their financial performance.

Abdi (2018) examined the effect of internal control systems on Mogadishu's commercial banks' performance. The main goal was to analyze the efficiency of the internal control systems at Mogadishu's private banks and to examine the results of their financial operations. 33 people who worked for private banks in Mogadishu as managers, chief cashiers, internal auditors, and financial directors were the study's intended participants. Descriptive statistics was utilized to analyze the data. As a

research tool, questionnaires were distributed. The findings of the study showed that the majority of Mogadishu's private banks had adequate resources to carry out the goals they had set. There is also a clear division of labor. This poll reveals that internal auditors regularly, quickly, and efficiently carry out their duties.

Mwakimasinde, Odhiambo, and Byaruhanga (2014) conducted a second study to examine how internal control mechanisms affect the financial performance of Kenyan sugarcane out grower businesses. The research utilized descriptive correlational survey design. Primary and secondary sources were used to collect data. Main informants from each of Kenya's nine out grower companies were surveyed in order to gather primary data. Secondary data was acquired through publications, yearly reports, and document analysis. Because the primary informant technique was used, the study included all of the finance managers and internal audit department heads from each out Grower Company. The data collection tools were distributed to all nine sugarcane out grower institutes. Cumulative frequencies and percentages were calculated using SPSS version 19.0, the statistical package for social scientists, to examine the data. According to the research, the internal control system had a considerable and positive impact on financial performance.

Nyakundi, Nyamita, and Tinega (2017) examined the effect that internal control systems had on the financial well-being of small and medium-sized enterprises in Kisumu, Kenya. The research employed stratified and straightforward random sampling method to select research population. The study's cross-sectional survey research design was adjusted, and it employed both quantitative and qualitative approaches. The research employed primary and secondary data sources. Financial records from the companies included in the study were used to obtain secondary data, while standardized questionnaires and interviews were conducted to collect primary data. The data were examined using descriptive statistics as well as inferential statistics. The research findings showed that internal control systems are related to a considerable change in financial performance. The findings of the study supported the hypothesis that the financial performance of Kenya's public water corporations was significantly affected by internal control systems.

Study by Njanike, Mutengezanwa and Gombarume (2016) looked at factors in Zimbabwe that influence internal controls in financial institutions in emerging nations to ensure excellent corporate governance. The study looked at how internal control flaws affected corporate governance as well as the key components that make it successful. It became evident that bad corporate governance was significantly influenced by the adoption of ineffective internal controls. The study found that insufficient corporate governance was a result of the issue of "fact cat" directors as well as internal control structure gaining precedence.

Njeri (2014) investigated how internal controls affected the financial results of Kenyan manufacturing firms. The primary goal of the study was to find out how internal control systems impacted the financial performance of Kenyan manufacturing companies. The sample for the study was made up of twenty industrial companies. Primary and secondary data were utilized in the course of the study. While primary data came from a structured questionnaire, secondary data came from the financial records of the questioned industrial businesses. According to the study, which employed multiple regression to examine data, the vast majority of the manufacturing firms surveyed had a strong control environment, which had a positive impact on the firms' financial performance. The study came to the conclusion that manufacturing enterprises with good internal control systems surpassed those that had inadequate internal control systems in terms of their financial performance. Manufacturing companies' governing body (the board) should be assisted by the auditing committee in ensuring that the internal control system is routinely examined and assessed.

2.2.2 Information and Communication and Financial Performance

It was assessed how cash management practices affected the financial performance of SMEs in Ghana's Northern Region by Hamza, Mutala, and Antwi (2015). The use of a descriptive cross-sectional survey made it possible to collect primary quantitative data using carefully designed questionnaires. The target group comprised of approximately 1,000 SME owners and managers. A sample of 300 SMEs, comprising of 164 trading, 26 manufacturing, 10 hairstyling, 62 dressmaking, and 38 carpentry enterprises, was

gathered using the stratified random selection technique. The data was analyzed through both descriptive and inferential statistics. The research found a positive correlation between SME financial success and ECM efficacy at a 1% significance level. According to the study, techniques of cash management have an impact on how financially successful SMEs are. As a result, SME managers must put effective cash management practices in place as a tactic to boost their financial performance and succeed in the unpredictable business environment.

Wanjala (2015) examined the effects of financial administration strategies on Matatu Sacco growth in the Kimilili sub-county. 169 Matatu Sacco owners and members were the focus of the study. The study used a descriptive research design. Both closed-ended structured and open-ended unstructured questionnaires were adopted in the study. The sample size of 34 Matatu Sacco members was selected using stratified and random sampling techniques. Descriptive and inferential statistics were both employed in the research. Regression analysis was employed in the study to ascertain the relationship between cash management techniques and Matatu Sacco growth. A statistical programme for the social sciences was used to analyze the data. The study came to the conclusion that cash management techniques had a major impact on Matatu Sacco growth.

Avika and Hari (2014) examined the difficulties of cash management among small retailers in the Tongaat region of KwaZulu-Natal, South Africa. The research utilized cross-sectional, descriptive, and quantitative research methodology. The tool for gathering data was questionnaires. The findings demonstrated a close relationship between managing cash flow and knowing how to handle cash. The findings also revealed a connection between the ability to sustain a profitable business and the adoption of cash management procedures, as well as a link between profitability and the difficulties connected with monetary management techniques.

The financial performance of deposit-taking SACCOs in the Mount Kenya Region in 2015 was studied by Njeru, Njeru, Member, and Tirimba. The target population was all the 30 registered Saccos accepting deposits in the Region of Mount Kenya, and the sample size was 92 respondents. The sampling strategy used was simple random sampling. This study employed a descriptive survey to find out more about how

liquidity management impacts deposit-taking SACCOs' financial performance in the Mount Kenya region. The essential quantitative data was collected through self-administered structured questionnaires. The scholar also made use of secondary data acquired from the authorities' and SACCOs' audited financial records (SASRA). The acquired data was analyzed using both descriptive and inferential statistics in relation to the study's aims. The study found that it was necessary implement money management controls in SACCOs, to improve the function of SASRA and increase its responsiveness, to implement credit management regulations and ultimately to boost the government's monitoring role through its regulator in the industry because the sector is very critical to the realization of vision 2030 and the positive economic growth of its constituents.

Abioro (2013) looked into how cash management affected the success of Nigerian manufacturers through a study of Cadbury Nigeria Plc. The study's data was collected using both primary and secondary sources. The independent variable, cash management and the dependent variable, performance, were the research's two key focus variables for straightforward assessment. To determine whether there exists a substantial relationship between financial management, performance, and liquidity, two hypotheses were developed and evaluated through descriptive statistics and correlation coefficients, respectively. The results of the research indicated that budgetary control had a significant effect on the productivity of Nigerian industrial firms.

A study examining the effect of managing warehouse inventory systems on the financial performance of Seventh Day Adventist organizations in Kenya was conducted in 2015 by Wambua, Okibo, Nyang'au, and Ondieki. The major goal was to evaluate how the inventory storage systems affected the Seventh Day Adventist Institution's financial performance. The study's research method was descriptive. At HHES, the sample size was 64 employees, or 30% of the target population, out of 216 employees that made up the intended demographic. Random stratified sampling was chosen as the data collection method because of the populace's diversity. Statistical software for social science was utilized to examine data using regression and correlation (SPSS). Tables and graphics were then used to present the data. The results showed a strong relationship between financial success and the inventory's warehousing system.

The effectiveness of the department of procurement at sugar production industries located in the western sugar belt in relation to the impact of inventory control was assessed by Mukopi and Iravo (2015). The study used a descriptive survey research methodology. Out of 100 procurement employees from West Kenya Sugar Company, Mumias Sugar Company, Butali Sugar Company and Nzoia Sugar Mills, 30 were randomly selected for the study. The respondents completed structured questions that the researcher gave to them. The collected information was analyzed with SPSS and then exhibited in tables and figures. The ANOVA outcome for all categories revealed a substantial relationship between inventory optimization systems, strategic supplier alliances, technological innovation legal procedures and the impact of inventory management on the effectiveness of sugar manufacturing enterprises' procurement functions.

A study on the effect of inventory management methods on the financial performance of engineering firms in Nigeria was carried out by Duru, Okpe, and Udeji in 2014. The five engineering groups that were chosen for the study each had a survey run between 2009 and 2014 for that purpose. By looking through the annual statements of the firms under consideration, secondary data was acquired. The kind and strength of the relationship between the variables in inventory management were determined using correlation analysis. The findings revealed a statistically significant favorable relationship between inventory control and both return on assets and return on equity.

Ojera, Lwiki, Mugenda, and Wachira (2013) researched on how inventory management practices affected the financial performance of Kenyan sugar companies. In each of the eight active sugar producing firms during the years of 2002 and 2007, a research survey was conducted. To collect primary data, semi-structured and structured questionnaires were given to key respondents in the organizations. Annual financial performance reports, which were utilized to produce secondary data, are included in the sugar statistics year book. The effectiveness of inventory management practices was

evaluated using correlation analysis, which also revealed the nature and strength of the correlation between the inventory management variables. The results demonstrated a favorable relationship between inventory control and both return on assets and return on equity.

2.2.3 Control Environment and Monitoring and Financial Performance

Gichuki (2016) carried out study to examine how cost management techniques affected the manufacturing firms listed on the Nairobi Securities Exchange with regard to profitability. The multi-variance linear regression model was employed in the study's informal research design. The research population consisted of six of the eight manufacturing firms registered on the Nairobi Securities Exchange. Since it was unable to collect the data, the two were approved. The environment had a positive effect on the financial success of manufacturing firms. The recommendations made by the research placed a strong emphasis on managing labour, inventory, and distribution costs. This entails making sure the precise number of things is available, that the supply chain is trustworthy, and that labour is both insufficient and productive.

In a 2014 study, Oluwagbemiga, Olugbenga, and Zaccheaus explored the connection between manufacturing organizations' performance and cost management techniques. Using data from 40 manufacturing companies listed in the Nigerian stock exchange between 2003 and 2012, this research examined the relationship between cost management techniques and firm performance in manufacturing organizations. The study's four hypotheses were created and tested using the t-statistic. The research was based on secondary data that was taken from the accounting records that had been audited from the targeted businesses. The findings revealed a positive statistically significant link between cost management techniques and organizational performance in the industrial sector. Therefore, if their objective of maximizing profits and creation wealth is to be achieved, it is essential that a cost-cutting plan be implemented with focus on production overhead expenses and managerial expenditures.

The study on the factors impacting home maintenance management expenses in the Kenyan municipality of Kakamega was conducted by Nyayiemi (2013). The study argued that maintenance costs are sufficient to pay for the entire budget or expenditure

necessary to keep a facility operating at its best or in good condition. According to reports, the main objective of maintenance management companies was to consistently provide the building with services that adhered to the necessary or acceptable standards at the most affordable price. The goal of this study in Kenya's Kakamega Municipality was to identify the variables influencing the price of housing upkeep administration. The aim of this research was to assess the relationship between building characteristics and maintenance management expenses in the Kakamega Municipality, the relationship between tenant factors and maintenance management expenses in the Kakamega Municipality, the relationship between maintenance factors and maintenance management expenses in the Kakamega Municipality generally, and the relationship between political elements and maintenance management expenses in the Kakamega Municipality. The research employed a descriptive survey methodology. Descriptive statistics was utilized to examine the collected data, and the findings were then displayed as means, standard deviations, and frequency tables.

Etengu and Amony (2016) examined the impact of internal auditing processes on the ability of Ugandan non-governmental organizations to make money. In order to examine how the control environment, control procedures, and monitoring affected the financial performance of non-governmental organizations in Uganda, the International Union for Conservation of Nature was utilized as a case study in the study. The study qualified as a primary data study because it used interviews and a structured questionnaire to gather the data. The findings of the study showed a significant relationship between each internal control indicator and financial performance (control environment, control activities, and monitoring). The research suggests that in order to increase financial performance, the International Union for Conservation of Nature should concentrate on controlling the environment, controlling activities, and monitoring.

2.3 Research Gap

Author	Title	Objectives	Methodology	Findings	Conclusion and Recommendation	Gaps
Aimable Ineza (2016)	Internal Control Systems and The Performance of Agricultural Smes in Mbale District	This study aimed at establishing the contribution of internal control systems towards the performance of agricultural SMEs in Eastern Uganda, with a case study of SMEs in Mbale district.	Descriptive research design was used and first-hand information was gathered through questionnaires that were distributed via email. A total of 68 respondents was used as sample size. Case study research design and used both qualitative and	Results from the survey indicated that respondents supported the view that there is a relationship between financial control and performance	The conclusion was that generally, there is a weak positive correlation between internal control systems and the performance of Agricultural SMEs in Eastern Uganda.	His study did not utilize all the interrelated internal controls constructs for example information and communication was left out.

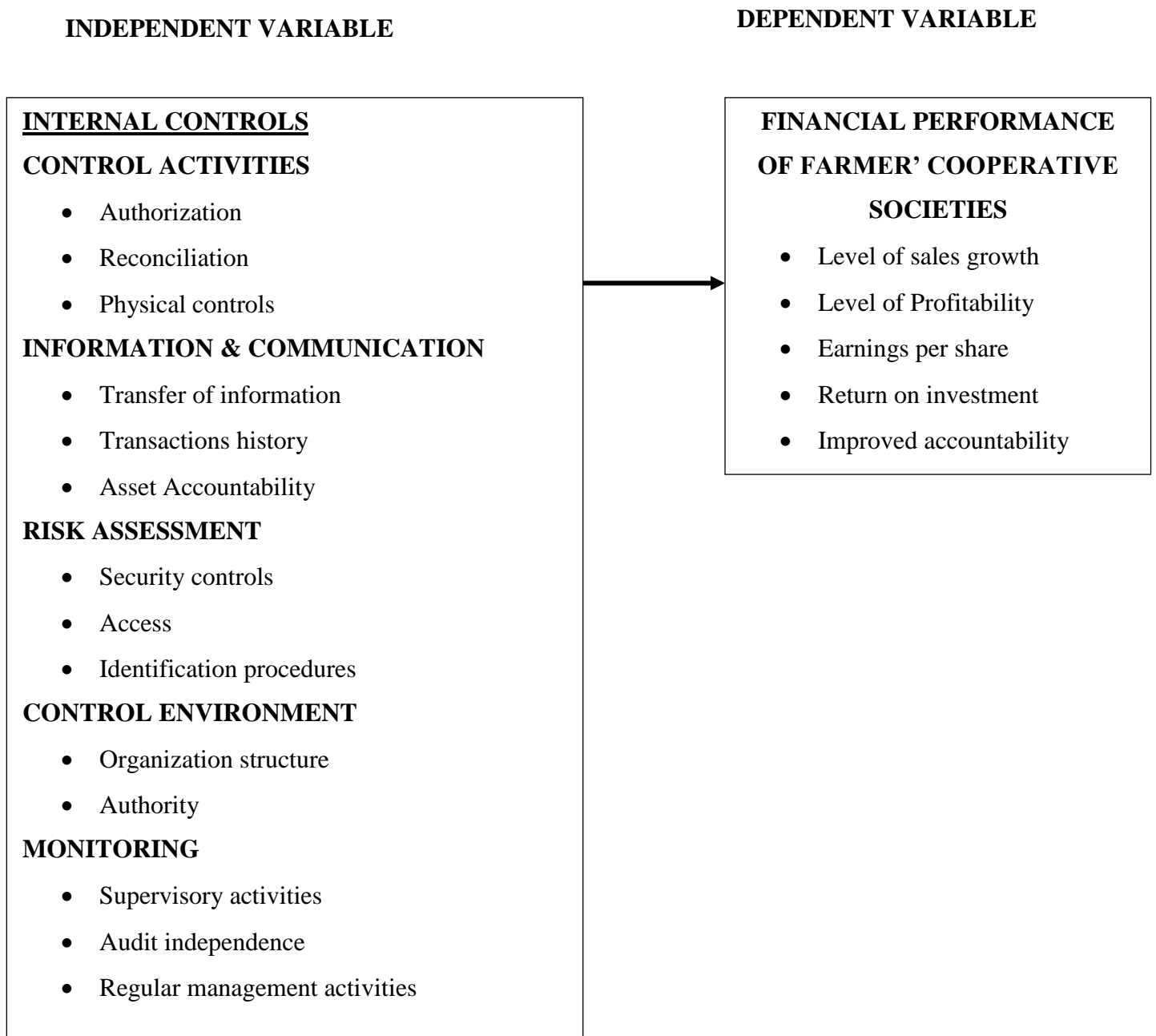
			quantitative approaches			
Akiman a Kelly Joelle	Effect of Internal Controls on Financial Performance of Small and Medium Enterprises in Nairobi County	The objective of the research was to examine the effect of internal controls on financial performance of small and medium enterprises in Nairobi County.	The study employed a descriptive research design.	The findings revealed that there is a positive and significant relationship between internal controls and financial performance	This research recommended that SMEs develop internal control systems that are consistent with the organization's financial performance.	This study did not incorporate interviews in data collection yet its very crucial as it helps the researcher dispel certain notions that might have otherwise been overlooked.
Etungu and Amony	Internal Control System and Financial Performance in Non-Governmental	The objective of this research was to investigate the role of internal control systems	Survey design	The study's conclusions showed a significant relationship between	In order to further improve the International Union for Conservation of Nature's financial performance, the analysis recommended that the control environment,	In their study of Internal Control systems, they did not use all constructs of internal controls, they left out information and communication

	<p>Organizations in Uganda: An Example Case Study of International Union for Conservation of Nature</p>	<p>on the financial performance of Ugandan non-governmental organizations.</p>		<p>control environment, control activities, monitoring, and financial performance.</p>	<p>control activities, and monitoring be improved.</p>	<p>and risk assessment which are very key. In my study I did utilize all the 5. My study focused on both government and non-governmental organization.</p>
--	---	--	--	--	--	--

2.4 Conceptual framework

Figure 1 presents a streamlined relationship between the dependent variable (financial performance) and independent variable (internal controls). Internal controls included: control activities, risk assessment, monitoring, control environment and information and communication whereas financial performance was measured by return on investment, sales growth, share capital, accountability, profitability and losses.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section addressed research design, target population, sampling design, research instruments, instrument validity, instrument reliability, data collection procedures, data analysis and ethical consideration.

3.1 Research design

This research adopted time series design utilizing both quantitative and qualitative data analysis methods. This study's use of a time series research methodology was crucial since it allows for the measurement and computation of a phenomenon's overall performance change over a prolonged period of time, in this case, five to ten years. A time series study approach was used to investigate how internal controls impacted financial performance indicators like ROI, sales growth, profitability and losses, share capital and accountability in Farmers' Cooperative Societies in Kenya's Trans-Nzoia county. Time series study methodology was appropriate in this research as it would employ primary data to describe, explore and quantify social phenomena such as audit practice and more so circumstances and challenges which are dominant in the business community at a specific point in time such as financial performance of Farmers' Cooperative Societies. The use of time series and longitudinal research designs are encouraged by Smith (2019) and Myers (2019), as it will make it easier to collect data and ensure that it is reliable, convenient and affordable.

3.2 Study area

Trans-Nzoia county formerly in Rift Valley province, served as the study's location. Its headquarters is in Kitale town and it has a population of 990,341 people. It has 5 sub-counties namely Saboti, Kiminini, Endebess, Kwanza and Cherangany.

3.3 Target population

According to Smith (2019) and Myers (2019), target population is the whole populace from which the sample is to be drawn. This research targeted Finance officers, accountants, directors and Operation managers. The target population was 132 persons from 26 Farmer' Cooperative Societies in Trans-Nzoia County who are involved in the

running of the FCSs. 26 Farmers' Cooperative Societies were used in the study, 7 being from Saboti, 6 Kiminini, 4 Kwanza, 5 Cherangany and 4 Endebess (see **Appendix 6**). Trans-Nzoia county was selected owing to highest rate closure of Farmers' Cooperative Societies and also their dismal performance since the establishment of the county governments in 2013. According to the County Government of Trans-Nzoia report on viability of cooperatives 2020, Farmers' Cooperative Societies have had poor performance over the past nine years, with closures of Farmers' Cooperative Societies and generally low profitability being experienced. In 2013, county government came into existence and agriculture was devolved and thus more funds were pumped into agriculture at county level. KUSCCO in partnership with counties boosted cooperative societies in terms of financial support but still performed poorly. The goal of the research was to ascertain how internal controls affect financial performance of Farmer' Cooperative Societies

Table 3.1: Target Population

Farmer' Cooperative Societies Category	Staff Designation	Number of Staff
Beverage (coffee and tea)	Finance Officers	33
	Accountant	33
	Director	33
	Operation managers	33
		132

Source: Trans Nzoia Chamber of Commerce (2021)

3.4 Sample design and size

The sample size was determined using Yamane's Taro formula (1967) since the targeted population was below 400.

$$n = \frac{N}{1+N(e)^2}$$

Where:

n is the required sample size.

N is the Target Population

e is the precision error (5%).

Therefore; $n = \frac{132}{[1+132(0.05)^2]} = 99$ Respondents

As a result, the sample size for the research was 99 participants.

Table 3.2: Number of respondents from each sub-county Farmer’ Cooperative Societies.

Sub-county	Number of staff
Saboti	24
Kiminini	21
Cherangany	20
Kwanza	18
Endebess	16
Total	99

3.5 Data Collection Instruments

Collection of data was done through interviews and questionnaires method to capture primary data. Interviews were conducted on the Directors whereas Finance Officers, Operations Managers and Accountants were given questionnaires. Questionnaires were used owing to its advantage in covering huge populations within minimal time frame, its flexibility in being administered through online mode. The inadequacies of questionnaires were covered through interviews on the directors who provided more details that may have been left out in the questionnaires.

3.6 Validity and reliability of the research instruments

Validity is the accuracy of results produced by the research tools (Cooper & Schindler 2008). Alpha values greater than 0.7 would be taken to be the acceptable levels for the data collected in its reliability index. A reliability index of 0.83 was obtained for the research. Since the reliability index was more than the 0.7, the study instrument was regarded suitable for use. Reliability of research instruments is referred to as the consistency of the results acquired after repeated iterations of the same or similar studies (Smith 2019). According to Cooper and Schindler (2008), dependability evaluates how consistently a test or experiment produces the same results across trials and measurements. Cronbach's Alpha test was employed in this study to guarantee that the analysis tools were in line with internal consistency. The study was preceded by a pilot study. The pilot study's goal was to test the reliability and trustworthiness of the research tools in order to produce accurate results. The pilot study was done on 2 Farmers' Cooperative Societies in Uasin-Gishu County and used 13 respondents.

Table 3.3: Reliability Test

Variable	Cronbach's Alpha
Control Activities	0.820
Information and Communication	0.840
Risk Assessment	0.811
Control Environment	0.824
Monitoring	0.834
Finance Performance	0.850
Overall Reliability Index	0.830

Source: Research Data (2022)

3.7 Ethical consideration

Ethical considerations and principles are rules, regulations or codes of conduct that a researcher will use and abide by before, during and after his study in order not to harm himself, herself or respondents in the study (Bell, Bryman & Harley, 2018). The researcher thoroughly outlined the research's goals and methodology to the respondents in order to give them the information they needed to make an informed decision and give informed consent. The respondents were guaranteed of stopping the process

anytime they felt offended or their rights violated. Permission and approval from Jaramogi Oginga Odinga University of Science and Technology (JOUST) School of Postgraduate Studies (*see appendix 2*), Ethics Review Commission (ERC) (*see appendix 1*) and National Commission for Science, Technology and Innovation (NACOSTI) was granted before carrying out the study (*see appendix 3*). Trans-Nzoia County Commissioner, the county government of Trans-Nzoia chamber of commerce and the County government of Trans-Nzoia education department were informed of my intention to carry out the study who issued a written consent to conduct the study. This was done primarily to reassure the county leadership that the respondents' participation was voluntary and private. The information collected from the respondents and participants was kept private and confidential and it was solely utilized for academic purposes. The researcher and research assistants made sure informed consent was given by asking for permission from the participants.

3.8 Data Analysis and Presentation

Bell, Bryman, and Harley, (2018) defined analysis of data as the mechanism of sorting, arranging and presentation of data to produce more detailed meaning derived from the study findings. Smith (2019) says that in addition to editing and handling blank responses, data analysis also comprises coding, categorizing, and putting remarks into the statistical package for social sciences (SPSS). Descriptive and inferential statistics were among the statistics produced. In particular, Microsoft Excel was utilized to create charts and tables in conjunction with SPSS version 23. The participant's characteristics were measured using descriptive statistics (means and standard deviation), and the data was examined using multiple regression. Inferential statistics was used to handle big samples and make predictions based on the results in all five objectives.

The findings were provided in frequency tables, means, and percentages. The replies from the surveys were tabulated, coded, and processed using the computer programme Statistical Package for Social Science (SPSS) version 23 in order to analyze the data. Using the multiple linear regression model shown in Equation 1, the level of significance between the dependent variable (Y) and the independent variable (X) was assessed. ANOVA was utilized to determine the overall model significance.

Regression Model $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \dots$ Equation 1

Where:

Y = Financial Performance

X1 = Control Activities;

X2 = Information and Communication

X3 = Risk assessment

X4 = Control Environment

X5 = Monitoring

ϵ = Error term

β_1, β_2 and β_3, β_4 = Beta coefficients

β_0 = Constant Term

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This chapter comprises data analysis and discussion of the results. The chapter further shows the respondents' rate of response.

4.1 Response rate

The scholar dispersed 99 research questionnaires to the respondents who included 33 Operation Managers, 33 Finance Officers and 33 Accountants. 90 out of 99 questionnaires were brought back. This implies that the response rate was 90.9%. 50.0% of respondents to a survey, according to Mugenda and Mugenda 2008, considered acceptable. Therefore, since the above response rate met the criterion it was considered appropriate for this study. Three Directors were purposively interviewed, each from the 3 categories of the sampled Farmers' Cooperative Societies.

4.2 Personal Information

Gender, level of education, age, experience, number of personnel in the organization, and type of business were all general information acquired during the research. The findings in Table 4.1 showed that 30% of the respondents were male while 70% were female. Further, the findings indicated that 27.8% of the participants were of age less than 20 years, 52.2% were 20-29 years old while 16.7% were 30-39 years. Only 3.3% of the respondents were over 40 years. Additionally, the findings revealed that 14.4% of respondents had a certificate, 70% had a diploma, and 15.6% were graduates. In addition, 3.3% of respondents had one to five years of working experience, 60% had six to ten years, and 36.7% had eleven to fifteen years. The findings of the study further showed that the majority of respondents (96.7%) said that their company's had fewer than 10 employees, while 3.3% said it had between 11 and 100. On the other hand, 22.2% of the business were sole traders, 46.7% were private limited companies while 31.1% were partnership.

Table 4.1: General Information

		Frequency	Percent
Gender	Male	27	30.0
	Female	63	70.0
	Total	90	100.0
Age	Below 20 years	25	27.8
	20-29 years	47	52.2
	30-39 years	15	16.7
	40-years and above	3	3.3
	Total	90	100.0
Education level	Certificate	13	14.4
	Diploma	63	70.0
	Graduate	14	15.6
	Total	90	100.0
Work experience of the respondents	1-5 years	3	3.3
	6-10 years	54	60.0
	11-15 years	33	36.7
	Total	90	100.0
Number of employees in the organization	less than 10	87	96.7
	between 11-100	3	3.3
	Total	90	100.0
Form of Business	Sole trader	20	22.2
	Private Limited company	42	46.7
	Partnership	28	31.1
	Total	90	100.0

Source: Research Data (2021)

4.3 Control Activities.

Table 4.2: Descriptive Statistics of Control Activities on Financial Performance

STATEMENT	N	M	SD
Reconciliations is consistently documented and authorized by management.	90	4.87	.342
The organization develops control activities in order to effectively and efficiently carry out its goals and mission.	90	4.53	.753
Management grants employees restricted permission to carry out specific tasks and complete specific transactions.	90	4.57	.498
Information from both external and internal parties is readily available.	90	4.87	.342
Internal controls are implemented by the company, which improves performance of Farmers' Cooperative Societies.	90	4.93	.251
The person who performs reconciliation is the same person who approves transactions.	90	4.47	.502
Farmers' Cooperative Societies maintains a record of employees' trainings and achievement for the organization.	90	4.38	.488
Employees are encouraged to report fraud to the management and adequate measures taken to prevent it in the future.	90	4.91	.286
The highly regulated and monitored environment in the Farmers' Cooperative Societies industry is credited with effective internal control.	90	4.88	.329
Internal control systems are frequently implemented by Farmers' Cooperative Societies which reduces exposure to risk.	90	4.40	.493
The Farmers' Cooperative Societies maintain up-to-date duplicating and recording systems and have efficient staff management.	90	4.42	.497
Farmers' Cooperative Societies' top management committee provides a positive impact on financial fraud prevention.	90	5.00	.000
OVERRRAL MEAN SCORE		904.680	.406

M-Mean; SD-Standard deviation

Source: Research Data (2021)

The study's first goal was to investigate the effects of control activities on financial performance on Farmers' Cooperative Societies in Trans-Nzoia County. The descriptive data is summarized in Table 4.2, reveals that a majority of those polled

acknowledged that reconciliations were always documented and approved by management (M=4.87; SD=.342), organizations develop control activities in order to carry out their objectives and missions effectively and efficiently (M=4.53;SD=.753);management grants employees restricted permission to carry out specific tasks and complete specific transactions (M=4.57;SD=.498), information from both internal and external parties is easily accessible (M=4.87; SD=.342); the organization implemented internal controls that improved the performance of Farmers' Cooperative Societies (M=4.93; SD=.251);the person who performs reconciliation is the same person who approves transactions (M=4.47;SD=.502); In addition, respondents concurred that FCSs maintained records of employees' training and accomplishments for the organization (M=4.38; SD=.488); employees are encouraged to report fraud to Farmers' Cooperative Societies and adequate measures taken to prevent it in the future (M=4.91;SD=.286)the highly regulated and structured environment of FCSs has been credited as the reason for the effectiveness of internal control (M=4.88;SD=.329);management established control activities to successfully and efficiently monitor the financial statements; that Farmers' Cooperative Societies frequently developed contingency risk plans and implemented internal control techniques have lower risk exposure (M=4.40; SD=.493), and that FCSs have effective staff control and have maintained adequate recording and duplicating systems (M=4.42; SD=.497) and senior management favorably influenced financial theft prevention of the FCSs (M=5.00; SD=.000). The participants strongly agreed, according to the overall mean score, that control efforts had an impact on the financial performance of FCSs in Trans-Nzoia County. (M=4.68; SD=.406).

The descriptive statistics' findings (Table 4.2) were supported by the feedback that was gathered during the interview sessions. The three directors who were chosen stated that their companies had policies and procedures in place to make sure company rules were followed. Also they were heard stating that the reconciliation was always documented and approved by the management. Further, the directors mentioned that the FCSs kept record of employees training and achievements for the organization. In addition, employees were urged to report fraud involving FCSs, and appropriate actions were taken to tackle the issue. It was also evident that the directors agreed that FCSs maintained adequate recording and duplicating systems that had efficient staff management and the top management teal positively affected financial fraud

preventions of the FCSs. The directors' remarks were as follows:

Respondent X said:

“...in our company there are policies and procedures that help to ensure management directives are followed. Also there was ease access of information from both internal and external parties”

Also Respondent Y said:

“...in organization, the FCSs keeps records of employees' trainings and achievement and reconciliation always documented and approved by management”

Another remark was from Respondent Z who said:

“...the FCSs maintain adequate recording and duplicating systems with efficient staff control. In addition, the senior management team positively affects the FCSs ability to prevent financial fraud”

The aforementioned results confirmed Amaka's (2017) claim that internal control evaluated management effectiveness and was crucial to the growth and effectiveness of the organization. Furthermore, the study's findings agreed with those of Nyakundi, Nyamita, and Tinega (2014), who discovered that internal control systems significantly influenced the financial performance of Kenya's public water corporations. They discovered a connection between these systems and a sizable shift in financial performance as well.

Therefore, the research encourages the management of agricultural producer cooperatives societies in Trans-Nzoia County to adopt the appropriate and relevant internal controls in financial management. It is clear that putting internal controls in place can help organizations perform financially efficiently and effectively. On the other hand, lack of internal controls in organizations may result to poor financial performance. Therefore, there is need for the implementation of internal controls that can enhance financial performance in any organization.

4.4 Information and Communication.

Table 4.3: Descriptive Statistics of Information and Communication on Financial Performance

STATEMENT	N	M	SD
Transfer of information on financial matters is effectively communicated	90	4.34	.478
Records on Financial matters are well kept and analyzed.	90	4.34	.478
Internal audit information is communicated to employees regularly.	90	5.00	.000
There is efficient communication and feedback mechanism from the bottom level to the top level	90	4.74	.439
Past financial records are well kept and accessible when needed	90	4.51	.503
OVERALL MEAN SCORE	90	4.59	.38

M-Mean; SD-Standard deviation

Source: Research Data (2021)

The study's second objective was to look into how information and communication affected the financial performance on FCSs in Trans-Nzoia County. Based on the descriptive data in Table 4.3, those polled highly agreed, that transfer of information on financial matters is effectively communicated (M=4.34; SD=.478), The respondents also agreed that records of financial matters are well kept and analyzed (M=4.34; SD=.478),that internal audit information is communicated to employees regularly (M=5.00; SD=.000); there is efficient communication and feedback mechanism from the lowest level to the highest level (M=4.74; SD=.439) and past financial records are well kept and accessible when needed (M=4.51; SD=.503).The findings concluded that information and communication affected financial performance on FCSs in Trans-Nzoia County as evidenced by the mean score of 4.59.

The interview schedules results confirmed the descriptive results given in table 4.3. During the interview rounds with the directors, the directors mentioned that the internal audit information was communicated to employees regularly. They also emphasized that there was an effective system in place for the feedback and communication among different management levels. Moreover, the directors pointed out that the past financial records were well kept and accessible when needed. The following statements were recorded from the Directors:

Respondents X and Z said:

“...in our organizations, the internal audit information is usually communicated to employees regularly and also the past financial records are well kept and accessible when needed.”

And also Respondent Y alleged that:

“...in our organization there is an efficient communication and feedback mechanism from the lowest level to the highest level”

The previous study's findings were consistent with those of Mukopi and Iravo (2015), who observed a strong correlation between lean inventory systems, strategic supplier alliances, information technology, legal considerations, and the effects of inventory management on the efficiency of sugar manufacturing companies' procurement operations. The outcomes were consistent with those of Lwiki et al. (2013), who discovered that inventory management improved both return on sales and return on equity.

The researcher also comments that there was need for the management of the Farmers' Cooperative Societies in Trans-Nzoia County to encourage the sharing of information among the employees. This will enhance financial performance in the societies. The financial records and statements should be made available for inspection by the employees. Where there is no sharing of financial information, underperformance of financial management could occur.

4.5 Risk Assessment on Financial Performance.

Table 4.4: Descriptive Statistics of Risk Assessment on Financial Performance

STATEMENT	N	M	SD
Internal audit and design of the FCSs are vital components of credible financial information reporting.	90	4.38	.488
Internal controls must be put in place by FCS management to ensure efficiency and effectiveness.	90	4.57	.498
The management of FCSs carefully assesses the degree of risk and works to keep it within predetermined levels.	90	4.93	.251
The financial statements reveal the effectiveness of the FCSs' internal audit.	90	5.00	.000

When making important decisions about control risk assessments, the external auditors consider the board's function.	90	4.87	.342
Every FCS must manage its risks in order to minimize its susceptibility to losses.	90	4.93	.251
The operation of risk assessment and prevention is essential for the FCS risk management system.	90	4.38	.488
The company identifies and evaluates management –related risks that are important for the creation of financial statements.	90	4.87	.342
The FCS's risk-buffering strategy for projected risks assists them in reaching higher risk performances.	90	4.38	.488
There is continuous performance appraisal and assessment by the internal auditor for the FCSs.	90	4.93	.251
A comprehensive research is carried out of the factors that could hinder the organization's goals not being achieved.	90	4.87	.342
OVERALL MEAN SCORE	90	4.74	0.34

M-Mean; SD-Standard deviation

Source: Research Data (2021)

The third research goal was to find out the effects of risk assessment on financial performance of FCSs in Trans-Nzoia County. In Table 4.4, the descriptive statistical analysis showed that those surveyed firmly believed that the FCSs' internal audit program and organizational design are crucial components of accurate financial reporting (M=4.38; SD=.488) and that the management of FCSs had a responsibility to create internal controls that ensured efficiency and effectiveness (M=4.57; SD=.498); the management of FCSs carefully determined the risk level and strived to maintain it within predetermined levels (M=4.93; SD=.251); the account records show the eminence and effectiveness of the internal audit (M=5.00; SD=.000); and the external auditors respond to the internal audit; when making important decisions about control risk assessments, the external auditors consider the board's function (M=4.87;SD=.342);The internal auditor consistently assesses and reviews the FCS' financial performance (M=4.93; SD=.251), the FCSs' risk management program necessitates the operation of risk assessment and mitigation (M=4.38; SD=.488) there was careful examination of the variables that might have an impact on the organization's ability to meet its goals (M=4.87; SD=.342). The FCS's risk-buffering strategy for projected risks

assists them in reaching higher risk performances ($M=4.38;SD=.488$). There is continuous performance appraisal and assessment by the internal auditor for the FCSs ($M=4.93;SD=.251$) and finally a comprehensive research is carried out of the factors that could hinder the organization's goals not being achieved ($M=4.87;SD=.342$). Those surveyed strongly affirmed, as evidenced by the overall mean score, that risk evaluation had effect on financial performance of FCSs in the Trans-Nzoia county. ($M=4.74;SD=.34$).

The interview session results corroborated the observations mentioned above. The Directors were overheard stating that the FCSs always conduct performance analysis and evaluation by the FCSs' internal auditor. In addition, the directors stated that FCSs management were responsible for the design of internal controls to ensure effectiveness and efficiency. Some common statements were noted from the directors:

Respondent X said:

“...in our cooperative society there are careful assessments of issues that affects the possibility of goals of the organization not being achieved also the management is responsible to design internal controls to ensure efficiency and effectiveness.”

Also Respondent Z said:

“...there is always a performance review and evaluation by the internal auditor for the FCSs.”

The findings were consistent with those of Gichuki (2016), who found that cost management strategies were favorably related with the fiscal success of manufacturing companies. The findings mirrored those of Oluwagbemiga, Olugbenga, and Zaccheaus (2014), who observed a significant positive relationship between budgeting techniques and business success in the manufacturing firm.

Therefore, the current research encourages the management of the Farmers' Cooperative Societies in Trans-Nzoia County to adopt a cutting expense approach with emphasis on production overhead expenses and administrative overhead costs should be implemented if their goals of maximizing profits and creation of wealth are to be accomplished.

4.6 Risk Control Environment on Financial Performance.

Table 4.5: Descriptive Statistics of Control Environment on Financial Performance

STATEMENT	N	M	SD
The organizational goals have been established by management.	90	4.38	.488
Risks to the goals achievement are identified by management.	90	4.38	.488
Management has parameters for determining which fraud-related hazards to the business are most severe.	90	5.00	.000
The management has implemented procedures for reducing considerable menaces that could be bought on by fraud.	90	4.87	.342
The management gives reassurance about the effectiveness of risk management.	90	4.38	.488
Evaluate the company's ethics and ideals.	90	4.57	.498
Informal and impromptu assessments of multiple areas of concern, including unacceptable levels of risk.	90	4.93	.251
OVERALL MEAN SCORE	90	4.64	.365

M-Mean; SD-Standard deviation

Source: Research Data (2021)

The fourth research objective was to establish the effects of risk control environment on financial performance on FCSs in Trans-Nzoia County. According to the descriptive statistics in Table 4.5, the management establishes appropriate goals for the organization (M=4.38;SD=.488), the supervisors identified which risks had influence on the accomplishing of goals. (M=4.38;SD=4.88),the standards adopted by management to determine which fraud-related risks to the organization are most serious (M=5.00; SD=.000); the management has established mechanisms that mitigate the significant risks that could result from fraud (M=4.87;SD=.342);the management provided assurance that the risks are being adequately handled (M=4.38;SD=4.88),according to the respondents. The management assesses the organization's ethics and values (M=4.57; SD=.498);and makes informal and impromptu assessments of multiple areas of concern (M=4.93;SD=.251) The respondents agreed that the risk control environment had a stronger impact on the financial performance of FCSs in Trans-Nzoia County, as evidenced by the survey's overall mean score of (4.64)

The outcomes of the directors' interview session corroborated the descriptive findings. According to the directors, management had identified risks that affected achieving the objectives and had procedures for determining which fraud-related hazards to the business were the most severe. The directors also noted that the management had given them confidence in how well the risks are being handled. The following were remarked: Respondents X and Y said

“...in our organizations, the management has criteria for determining which fraud-related risks to the organization are most serious, and the management also has appropriate goals for the organization.”

In addition Respondent Z said:

“...the management has provided assurance that the risks are being managed properly in the FCSs”

The above results showed that there was need for the administration of the FCSs in Trans-Nzoia county to make sure that they have control environment in place so that mitigate any poor financial performance in their organization.

4.7 Monitoring on Financial Performance.

Table 4.6: Descriptive Statistics of Monitoring on Financial Performance

STATEMENT	N	M	SD
Monitoring guarantees that the findings of audits and other reviews are addressed as soon as possible.	90	4.53	.502
Internal control is properly prepared for and carried out.	90	4.93	.251
The performance of the FCS is tracked throughout time to evaluate the standard and effectiveness of the system.	90	4.87	.342
Reducing the level of fraud and irregularity is the FCS's most efficient means of enhancing financial performance.	90	4.40	.493
Internal control system effectiveness is ensured through process monitoring.	90	5.00	.000
The FCSs undertake regular evaluations of financial data and physical assets, as well as an evaluation of activity performance, such as a review of performance reports.	90	4.87	.342

The FCSs keep records for events and transactions to evaluate the quality of performance over time.	90	4.40	.493
The most significant factor affecting how well FCSs work financially is monitoring.	90	4.57	.498
A system of internal control must be established and maintained by FCS management in order to be effective.	90	4.93	.251
A strong internal control system supports business governance and makes it possible to accomplish management goals.	90	4.82	.384
Monitoring might be carried out by ongoing tasks or independent assessments.	90	4.57	.498
An internal control system cannot be deemed effective without monitoring.	90	4.68	.465
OVERALL MEAN SCORE	90	4.69	0.386

M-Mean; SD-Standard deviation
Source: Research Data (2021)

The final goal of the research was to establish how the monitoring role impacted the financial performance of FCSs in Trans-Nzoia County. Based on descriptive statistics in Table 4.6, respondents overwhelmingly concurred that monitoring ensured the prompt resolution of audit and other review findings (M=4.53; SD=.502), that internal controls were properly planned and implemented (M=4.93; SD=.251); he FCSs periodic evaluation of the effectiveness of financial statements and that the FCSs was monitored in order to gauge the effectiveness and quality of the system's performance over time (M=4.87; SD=.342); reducing the level of fraud and irregularity is the FCS's most efficient means of enhancing financial performance (M=4.40;SD=.493); management approval performs a vital role in making sure that a company's resources are utilized for inventory acquisition in the best possible way (M=5.00; SD=.000); the FCSs periodic evaluation of accounting records and the performance of physical assets and activities, such as evaluations of performance reports, (M=4.87; SD=.342);the FCSs keep track of transactions and events to assess the general level of performance overtime (M=4.40;SD=.493).Monitoring is the most significant factor affecting how well FCS perform financially (M=4.57;SD=.498) the administration of FCSs is accountable for creating and executing an internal control structure that will be used (M=4.93; SD=.251); an effective internal control system strengthened business governance and

enabled management goals to be accomplished (M=4.82;SD=.384); and respondents overwhelmingly agreed that monitoring had the greatest impact on the financial performance of FCSs; Monitoring can be performed by ongoing activities or distinct evaluations (M=4.57; SD=.498). The control environment must exist for an internal control system to be deemed effective (M=4.68; SD=.465). The individuals who took part strongly concurred, as evidenced by the aggregate mean score, that the monitoring position had influence on the financial performance of the FCSs in Trans-Nzoia County. (M=4.69; SD=.386).

The interview session results with the three directors showed that the FCSs keep track of their activities to gauge the quality of performance over time. Also the directors were heard saying that the FCSs compare the accounting records and physical assets on a regular basis, as well as review the activity performance, including reports on performance. Further, the internal auditor always assesses and reviews the FCSs performance on a regular basis.

The directors' remarks were as follows:

Respondents X and Z said that:

".. in our cooperative societies, the management keeps track of all activities and transactions to determine how well employees have performed over time "

And Respondent Z said:

"...in our cooperative society, there are recurring comparisons of accounting records and physical assets and activity performance reviews of performance reports."

Also Respondent Y said that:

"... the there is always a periodic performance review and evaluation by the internal auditor for the FCSs"

The current study emphasizes the need for FCS management to monitor all of their actions in order to assess performance levels over time. Additionally, FCSs managers should be in charge of creating and upholding an internal control system for use within their enterprises.

4.8 Financial Performance

Table 4.7: Descriptive Statistics of Internal Controls on Financial Performance

STATEMENT	N	M	SD
There was increase in the profits	90	4.38	.488
Sales increase experienced by the firm	90	4.93	.251
There is a positive return on investment	90	4.87	.342
There was increase in EPS	90	4.38	.488
There was improved accountability on the financial management	90	4.38	.488
OVERALL MEAN SCORE	90	4.59	0.411

M-Mean; SD-Standard deviation

Source: Research Data (2021)

The primary objective of the research was to examine the impact of internal controls on the fiscal performance of FCSs in Trans-Nzoia County. According to the descriptive findings in Table 4.7, those surveyed, acknowledged that earnings had increased (M=4.38; SD=.488); strongly agreed that there was sales growth experienced by the firm (M=4.93; SD=.251); a positive return on investment (M=4.87; SD=.342); there was increase in share capital (M=4.38; SD=.488) and finally there was improved accountability on the financial management (M=4.38; SD=.488). Participants highly agreed, as evidenced by the participants' overall mean score, that internal control actions had an impact on the financial performance of FCSs in Trans-Nzoia County. (M=4.59; SD=.411).

The director's remarks concurred with the above results. They were heard saying that the internal controls had led to improved sales growth of the cooperative societies. In addition, the directors said that there was improved profitability in the organizations. Moreover, there was increased return on investments and EPS. The following remarks were noted:

Respondent X said:

"...there is more profits and increase of return on investment"

And Respondent Z said:

"... we have experienced increased sales and more profits. Also we have had enhanced accountability measures on the financial performance"

4.9 Inferential Statistics

To find out the degree of significance between internal controls (an independent variable) and financial performance (dependent variable), multiple regression was used. The regression analysis results were summarized in Tables 12,13 and 14

Table 4.8: Model Summary of Internal Controls on Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985a	.970	.969	.05881

a. Predictors: (Constant), Risk Assessment, Risk Management, Control Activities, Monitoring, Information and Communication.

The results in Table 4.8 demonstrated a significant positive correlation ($R=.985$; sig. value < 0.05) between internal controls and financial performance. The R-Square of .970 was calculated which inferred that 97% of the change in financial performance was attributed by the internal controls while 3% by other elements that were left out of the study.

Table 4.9: ANOVA of Internal Controls on Financial Performance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	9.533	5	1.907	635.667	.000b
1 Residual	.291	84	.003		
Total	9.824	89			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Monitoring, Control Environment, Information and Communication, Control Activities, Risk Assessment.

According to Table 4.9, there was a significant correlation between financial performance and internal controls. ($F=635.667$; Sig. value $< .05$).

Table 4.10: Coefficients of Internal Controls on Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	-2.725	.212		-12.850	.000
Control Activities	.173	.055	.119	3.141	.002
Information and Communication	.127	.030	.101	4.183	.000
Risk Assessment	.199	.110	.128	1.806	.074
Control Environment	.998	.097	.786	10.274	.000
Monitoring	.073	.037	.053	1.988	.032

a. Dependent Variable: Financial Performance

The findings of the research from table 4.10, revealed that Control Environment was the highest predictor (B=.998); followed by Risk Assessment (B=.199), Control Activities (B=.173), Information and Communication (B=.127) and finally Monitoring (B=.073). The results of the research, on the other hand, showed that Information and Communication and Risk Control Environment were the most significant variables on financial performance both with sig. value of .000 and followed by Control Activities (sig. value=.002), Monitoring (sig. value =.050 and finally Risk Assessment (sig. value = .074). The results were illustrated in the regression model as shown in Equation 2:

$$Y = -2.725 + 0.173X_1 + 0.127X_2 + 0.199X_3 + 0.998X_4 + 0.073X_5 \dots \text{Equation 2}$$

Where: Y = Financial Performance;

X1 = Control Activities;

X2 = Information and Communication;

X3 = Risk assessment;

X4 = Control Environment;

X5 = Monitoring;

Regression model 2 indicated that: For every change in financial performance at a constant of -2.725 and at a confidence level of 95%, Control activities contributed 0.173 units, Information and Communication (0.127 units), Risk Assessment (0.199 units), Control Environment (0.998) while Monitoring contributed 0.073 units.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section contains an overview of the findings, conclusions, and suggestions. The main objective of the research was to examine the impact of internal controls on the financial performance of FCSs in Trans-Nzoia County.

5.2 Findings Summary

The first objective was to assess the manner in which internal controls influenced the financial results of FCSs in Trans-Nzoia County. The participants in the study firmly agreed that the management always recorded and approved reconciliations, that internal controls were implemented by the organization to boost FCS performance, and that the organization had policies and rules in set up to help guarantee that executive directives were executed. Respondents also overwhelmingly agreed that management established control activities to efficiently and effectively carry out the organization's goals and mission; management permits staff to carry out specific tasks and to perform certain transactions within restricted parameters; availability of data from both internal and external sources is freely accessible and that the upper management favorably affected fraud prevention in the FCSs. Further, the respondents concurred that the FCSs maintained record of employees' trainings and accomplishments for the organization; The FCSs that routinely established internal control systems and created contingency risk plans were less vulnerable to risk, and their staff was effectively under their control. According to the mean score for all respondents, the respondents generally strongly agreed that control actions had effect on the financial performance on FCSs in Trans-Nzoia County.

The study's second objective was to investigate the effects of information and communication on financial performance on FCSs in Trans-Nzoia County. Based on the findings of the study, participants firmly believed that employees ought to be informed about internal audits on a frequent basis. Also the respondents strongly approved that past financial records are well kept and are accessible when needed and there is efficient communication and feedback mechanism. The respondents also agreed that records on financial matters are well kept and analyzed and transfer of information

on financial matters is effectively communicated. The respondents were agreement that information and communication had effect on the financial performance of FCSs in Trans-Nzoia County was indicated by the overall mean score.

The third research objective was to investigate the impact of risk assessment on economic performance on FCSs in Trans-Nzoia County. The study's findings showed that the participants strongly believed that it was up to the FCS management to create internal controls to guarantee their efficacy and efficiency; the management of the FCSs carefully assesses the degree of risk and makes an effort to keep such risk within manageable levels; and development of the FCSs' internal audit effectiveness, such that the FCSs' accounting reports depict the caliber of the internal audit. Additionally, the majority of respondents concurred that: the company recognizes and evaluates management-related risks to the compilation of financial statements; the internal auditor for the FCSs consistently carries out periodic performance assessments and evaluations of the FCSs; the independent auditors responded to the function of the management when making decisions regarding control risk assessments. Additionally, the respondents were unanimous in their opinion that internal audit, FCS's organizational design, and risk management were crucial elements of accurate financial accounting and necessitated the risk operation assessment and mitigation. The respondents strongly agreed that risk assessment had influence on the financial performance of the FCSs in Trans-Nzoia County, as evidenced by the overall mean score.

The fourth research objective was to examine the impact of control environment on financial performance on FCSs in Trans-Nzoia County. According to the study's findings, respondents believe management is more effective when it has standards for determining the organization's greatest fraud-related risks. Additionally, the management has established protocols for reducing major risks that could be brought on by fraud. Additionally, the respondents mentioned how well the management identified risks that had impact on the fulfillment of the organizational goals and provided assurance that they were being appropriately managed. Moreover, the management had defined appropriate goals for the organization. The participants agreed, according to the overall mean score, that control environment had a greater effect on the financial performance of FCSs in Trans-Nzoia County.

The final goal of the research was to assess how monitoring affects financial performance. According to research results, respondents agree that FCSs must be responsible in establishing and maintaining a system of internal controls for effective monitoring services. Additionally, the respondents thought that FCS's most efficient method for enhancing financial performance was to cut down on fraud and irregularities through monitoring efforts. Again, the respondents are adamant that monitoring is crucial to ensuring that a firm's inventory resources for procurement are used as effectively as feasible.

Based on the regression results, there was a strong correlation between internal controls and financial performance ($R=.985$; sig. value $< .05$). The R-Square of .970 measured the part of financial performance that was expounded by the internal controls. It revealed that internal control variation accounted for nearly 97 percent of the variation in financial performance. The overall model was statistically significant ($p<.05$). Internal controls, therefore had effect on financial results.

5.3 Conclusions

Firstly, the research revealed that control activities had an impact on the financial performance of FCSs. This means that for organizations to perform well financially it needs to have proper control activities for example continuous reconciliation of accounts, physical controls and authorization.

Secondly, the study found that communication and information had an impact on the financial health of FCSs. Well-timed communication of quality information enables employees in an organization to perform efficiently towards achieving its goals.

Thirdly, the research showed that risk assessment had a considerable effect on financial success of FCSs. Through this organizations are able to evaluate risk of substantial misstatement that may occur as a result of fraud or error.

According to the study's analysis of its fourth objective, the control environment, FCSs' financial performance was significantly impacted. This objective through organization structure is very key as it sets tone and act as foundation for all other internal control

components.

The monitoring component had effect on financial performance of FCSs. Monitoring through supervisory activities, audit independence and management activities ensures FCSs internal controls are operating as intended.

5.4 Implications and Recommendations

These are the study recommendations:

Firstly, The FCSs organizational management ought to embrace control activities for better financial performance.

Secondly, the administration of the FCSs ought to establish effective information and communication to promote its financial performance.

Thirdly, risk assessment strategies should be adopted by FCSs management for better financial management.

The forth objective concluded on the need for management of the FCSs to put in place strong control environment to boost profitability.

Fifth, the management of the FCSs should adopt efficient monitoring procedures to achieve better financial performance. In order for the management of the FCS to achieve greater financial performance, effective and efficient internal controls were required.

5.5 Further Research

A similar research need to be conducted in hospitality sector in order to examine how controls within affect their financial performance.

REFERENCES

- Abbas, Q., & Iqbal, J. (2012). *Internal Control System: Analyzing Theoretical Perspective and Practices*. Middle-East Journal of Scientific Research, 12(4), 530–538.
- Abdi, A. H., & Kimutai, G. (2018). *Monitoring and evaluation and performance of constituency development fund projects in Garissa County, Kenya*. International Academic Journal of Information Sciences and Project Management, 3(2), 418-445.
- Abioro, M. (2013). *The impact of cash management on the performance of manufacturing companies in Nigeria*. Uncertain Supply chain management, 1(3), 177-192
- Adams, M. B. (1994). *Agency theory and the internal audit*. Managerial auditing journal.
- Adedeji, A. O., & Olubodun, O. H. (2018). *Internal Control System in Small Scale Manufacturing Enterprises in Ondo State, Nigeria*. Journal of Business and Management, 20(1), 34–39.
- Ahmad, N. N. (2016). *Cash management practices in micro and small businesses in Malaysia*. Journal of Education and Social Sciences, 4(1), 331-335.
- Aikins, S. (2011). *An examination of government internal audits' role in improving financial performance*. Public Finance and Management, 11(4), 306-337.
- Aimable Ineza. (2016). *Internal Control Systems and Performance of Agricultural SMEs In Mbale District Uganda*.
- AKI, (2014). *Association of Kenya Insurers Report*. Act Press: Nairobi
- Akimana, K. J. (2019). *Effects of internal controls on financial performance of SMEs in Nairobi County*, pp1-60
- Ali Channar, Z., Khan, M., & Haider Shakri, I. (2015). *Internal Control Effectiveness & Its Relationship with Financial Performance*. IBT Journal of Business Studies, 11(2), 92–107

- Almajali, Y. A., Alamro, S. H. & Al-Soub, Y. Z., (2012). *Factors affecting the financial performance of Jordanian insurance companies listed at Amman Stock Exchange*. Journal of Management Research, ISSN 1941-899X, 4(2) and Management (BAM) 1: 205-218.
- Amaka, I. H., & Goeman, K. (2017). *Selecting media for effective learning in online and blended courses: A review study*. Journal of Educational Multimedia and Hypermedia, 26(1), 29-59.
- Anigbogu, T. U., Okoli, M., & Nwakoby, N. P. (2015). Financial Intermediation and Small and Medium Enterprises Performance in Nigeria (an Aggregated Analysis: 1980- 2013). *European Scientific Journal*, 1111(2828), 1857–7881.
- Alzeban, A. (2019). *An examination of the impact of compliance with internal audit standards on financial reporting quality*. Journal of Financial Reporting and Accounting.
- Asiligwa, M., & Rennox, G. (2017). *The Effect of Internal Controls on the Financial Performance of Commercial Banks in Kenya*. IOSR Journal of Economics and Finance, 08(03), 92–105.
- Bell, E., Bryman, A., & Harley, B. (2018). *Business research methods*. Oxford university press.
- Berger, P., & Luckmann, T. (2016). *The social construction of reality*. In Social Theory Re-Wired (pp. 110-122). Routledge.
- Chang, Y. T., Chen, H., Cheng, R. K., & Chi, W. (2019). *The impact of internal audit attributes on the effectiveness of internal control over operations and compliance*. Journal of Contemporary Accounting & Economics, 15(1), 1-19.
- Cika, N. (2018). *Development of Internal Controls in Small and Medium Enterprises - Case of Albania*. European Journal of Marketing and Economics, 1(1), 53–62.

- COSO (1992). *Internal control integrated framework*. Retrieved from <http://www.coso.org/icintegratedframework>.
- County, T., 2019. *County SME integrated development plan*. County Government of Trans-Nzoia
- Dineshkumar, S., & Kogulacumar, P. (2013). *Internal Control System and Its Impact on The Performance of the Sri Lanka Telecom limited in Jaffna District*. International Journal of Advance Computer Technology, 2(6), 56–64.
- Duru, A. N., Okpe, I., & Udeji, A. O. (2014). *Inventory Positioning and Firm Performance in*.
- Ejoh, N. O., & Ejom, P. E. (2014). *The effect of internal audit function on the financial performance of tertiary institutions in Nigeria*. International Journal of Economics, Commerce and Management, 2(10), 1-14.
- Eniola, Jacob, O., & Oluwafemi, A. (2016). *Effect of Internal Control on Financial Performance of Firms in Nigeria. (A Study of Selected Manufacturing Firms)*. IOSR Journal of Business and Management, 18(10), 80–85.
- Etengu, R.O., Amony, M. (2016). *Internal control system and financial performance in non-governmental organizations in Uganda: A case study of international union for conservation of nature*. International Journal of Contemporary Applied Sciences, 3(2), 328 -347.
- Ershaid, Diala Jehad, A., & Mohamed, M. Bin. (2017). *Moderating Effect of Internal Control System on the Relationship between Environmental Turbulence and Firm Performance in Jordanian listed Companies*. Journal of Accounting and Finance in Emerging Economies, 3(1), 11.
- Freeman, R. B. (1984). *Unionism comes to the public sector* (No. w1452). National Bureau of Economic Research.

- Friedman, A. L., & Miles, S. (2006). *Stakeholders: Theory and practice*. OUP Oxford.
- Friedman, A. L., & Miles, S. (2001). *Socially responsible investment and corporate social and environmental reporting in the UK: an exploratory study*. *The British accounting review*, 33(4), 523-548.
- Frooman, J. (1999). *Stakeholder influence strategies*. *Academy of management review*, 24(2), 191-205.
- Gamage, C. T., Lock, K. L., & Fernando, A. A. (2014). *A Proposed Reaserch Framework: Effectiveness of Internal Control System in State Commercial Banks in Sri Lanka*. *International Journal of Scientific Research and Innovative Technology*, 1(5), 25–44.
- Gichuki, M. M. (2019). *Factors Influencing Sustainability of County Government Funded Construction Projects in Laikipia County, Kenya* (Doctoral dissertation, University of Nairobi)
- Gift, E. (2018). *Internal audit and corporate governance effectiveness in universities in rivers state eke Gift O. Bursary Department, Rivers State University, Port Harcourt, Nigeria*. *European Centre for Research Training and Development UK*, 6(4), 35–58.
- Hameed, W. U., Waseem, M., Sabir, S. A., & Dahri, A. S. (2020). *Effect of enterprise risk management system and implementation problem on financial performance: An empirical evidence from Malaysian listed firms*. *Abasyn Journal of Social Sciences*, 12.
- Hamza, K., Mutala, Z., & Antwi, S. K. (2015). *Cash management practices and financial performance of small and medium enterprises (SMEs) in the Northern region of Ghana*. *International Journal of Economics, Commerce and Management*, 3(7), 456-480.
- Ibrahim, S., Diibuzie, G., & Abubakari, M. (2017). *The Impact of Internal Control Systems on Financial Performance: The Case of Health Institutions in Upper West Region of Ghana*. *International Journal of Academic Research in Business and Social Sciences*, 7(4), 684–696.

- Joseph Kipruto Kimetto (2017) *Determinants of Financial Performance of Agricultural Cooperative Societies in Baringo County Kenya*
- Kartadjumena, E., & Rodgers, W. (2019). *Executive compensation, sustainability, climate, environmental concerns, and company financial performance: Evidence from Indonesian commercial banks*. *Sustainability*, 11(6), 1673.
- Kiabel, B.D. (2007). *Accounting control practices and financial performance of government-owned companies: Evidence from Rivers State-owned companies*. (Unpublished Ph.D thesis). Rivers State University, Port Harcourt.
- Kiprop, L. F. (2017). *Effect of Risk Evaluation on Performance of Financial Institutions*. *Journal of Accounting*, 2(0), 54–68.
- Kisanyanya, A. G. (2018). *Internal Control Systems and Financial Performance of Public Institutions of Higher Learning in Vihiga County , Kenya*. *Journal of Business and Management*, 20(4), 31–41.
- Madembu, A. W., & Namusonge, G. (2017). *The Role of Risk Management on Financial Performance of Small and Medium Enterprises in Kenya*. *International Journal of Science and Research (IJSR)*, 6(1), 2125–2130.
- Mahadeen, B., Al-Dmour, R. H., Obeidat, B. Y., & Tarhini, A. (2016). *Examining the Effect of the Organization's Internal Control System on Organizational Effectiveness: A Jordanian Empirical Study*. *International Journal of Business Administration*, 7(6), 22–41.
- Mehmood, R., Hunjra, A. I., & Chani, M. I. (2019). *The impact of corporate diversification and financial structure on firm performance: evidence from South Asian countries*. *Journal of Risk and Financial Management*, 12(1), 49.

- Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods: Quantitative and Qualitative Approaches*. Nairobi; African Centre for Technology Studies.
- Muhunyo, B. M., & Jagongo, A. (2018). *Effect of Internal Control Systems on Financial Performance of Higher*. International Academic Journal of Human Resource and Business Administration, 3(2), 273–287.
- Muio C. (2012). *Impact of internal control systems on financial performance of Private hospitals in Nairobi*. Unpublished MBA Project, University of Nairobi.
- Mukhoma, K. H. (2014). *Accounts receivables management and financial performance of manufacturing firms in Nakuru County, Kenya* (Doctoral dissertation, University of Nairobi).
- Mukopi, C. M., & Iravo, A. M. (2015). *An analysis of the effects of inventory management on the performance of the procurement function of sugar manufacturing companies in the Western Kenya Sugar Belt*. International Journal of Scientific and Research Publications, 5(5), 1-14.
- Mukopi, L. M., & Iravo, A. M. (2015). *Factors Influencing the Use of Alternative Methods of Procurement in Public Hospitals in Vihiga County*. International Journal of Scientific and Research Publications, 5(5), 1-16.
- Mungal, A., & Garbharran, H. L. (2014). *Cash management challenges of small businesses in a developing community*. Mediterranean Journal of Social Sciences, 5(27 P1), 11-11.
- Muraleetharan, P. (2013). *Control activities and performance of organizations (Special reference in jaffna district)*. International Journal of Marketing, Financial Services & Management Research, 2(4), 10–16.
- Mustafa, G., Fatima, S., Saleem, S., & Ain, N. U. (2016). *An Empirical Study of Internal Audit and Firm Performance: A Proposed*. International Journal of Information Research and Review, 03(03), 1952–1956.

- Meyer, J. W., & Rowan, B. (1977). *Institutionalized organizations: Formal structure as myth and ceremony*. *American journal of sociology*, 83(2), 340-363
- Myers, M. D. (2019). *Qualitative research in business and management*. Sage Publications Limited.
- Nee, H., Yong, A., Tunku, U., Rahman, A., With, C., Practices, S., & Yong, A. (2017). *Enterprise risk management in Malaysia: A case study*, (June), 1–17.
- Newman, W., Alban, M., Alfred, S., & Ongayi, W. (2019). *Literature Review on Non-Implementation of Internal Audit Recommendations in an Organization*. *Academy of Entrepreneurship Journal*, 25(2), 1-10.
- Nqala, L., & Dubihlela, J. (2017). *Internal Controls Systems and Risk Performance Characterizing Small and Medium Manufacturing Firms in Cape Metropole*. *International Journal of Business and Management Studies*, 9(2), 87–103.
- Njaramba, E. A. N., & Ngugi, J. K. (2014). *Influence of Internal Controls on Growth of Small and Medium Enterprises in the Errand Services Businesses in Nairobi County*. *International Journal of Current Business and Social Sciences*, 1(1), 30–47.
- Njanike, K., Mutengezanwa, M., & Gombarume, F. B. (2016). *Internal controls in ensuring good corporate governance in financial institutions*. *Annals of the University of Petroşani. Economics*, 11, 187-196.
- Njeri, K.C. (2014). *Effect of internal controls on the financial performance of manufacturing firms in Kenya*. (Unpublished Masters Dissertation). University of Nairobi.
- Nuhu, M. S., Salisu, S., Kofarnaisa, F. U., & Nadu, T. (2017). *Internal Monitoring Mechanisms and Financial Fraud Prevention: Perceptions of Listed Deposit Money Banks in*. *International Journal of Innovative Finance and Economics Research*, 5(3), 69–80.

- Nyakundi, D. O., Nyamita, M. O., & Tinega, T. M. (2014). *Effect of internal control systems on financial performance of small and medium scale business enterprises in kisumu city, kenya*. International Journal of Social Sciences and Entrepreneurship, 1(111), 719–734.
- Nyayiemi, S. K. (2013). *Factors affecting housing maintenance management cost in kakamega municipality, Kenya* (Doctoral dissertation, University of Nairobi).
- Oluwagbemiga, O. E., Olugbenga, O. M., & Zaccheaus, S. A. (2014). *Cost management practices and firm's performance of manufacturing organizations*. International Journal of Economics and Finance, 6(6), 234-239.
- Oseifuah, E. K. (2015). *Internal control systems in small and medium-sized medical practices in the Thulamela municipality, South Africa*. Problems and Perspectives in Management, 13(4), 215–222.
- Phiri, J., & Mbetwa, S. (2017). *Investigating the link between internal controls and financial performance in technical colleges in Zambia: A case of Kabwe institute of technology*. International Journal of Multidisciplinary Research and Development, 123–128.
- Republic of Kenya (RoK). (2015). *Minimum consolidated wage guidelines-1st may 2015*. Ministry of labour and East African affairs. Nairobi, Kenya: Government printer.
- Republic of Kenya (RoK). (2019). *Economic Survey 2019*. Kenya National Bureau of Statistics. Nairobi, Kenya: Government printer.
- Republic of Kenya (RoK) (2016). *Micro, Small and Medium Establishment [MSME] Survey*. Kenya National Bureau of Statistics, Nairobi Kenya.
- Republic of Kenya (RoK). (2012a). *Kenya vision 2030: Ministry of State for Planning, National Development and Vision 2030*. Sessional paper no. 10 of 2012. Nairobi: Government printer.

- Republic of Kenya (RoK). (2016): *Women Enterprise Fund activities*. Retrieved from www.wef.go.ke. On 20th July 2020.
- Sanusi, Z. M., Johari, R. J., Said, J., & Iskandar, T. (2015). *The Effects of Internal Control System, Financial Management and Accountability of NPOs: The Perspective of Mosques in Malaysia*. *Economics and Finance*, 28(April), 156–162.
- Sarens, G., Abdolmohammadi, M. J., & Lenz, R. (2012). *Factors associated with the internal audit function's role in corporate governance*. *Journal of Applied Accounting Research*, 13(2), 191–204.
- Sarens, G., Abdolmohammadi, M., & Lenz, R. (2014). *Factors associated with the internal audit function's role in corporate governance*. *Journal of Applied Accounting Research*, 13(2), 191–204.
- Shanmugam, J. K., & Ali, A. (2012). *An Exploratory Study of Internal Control and Fraud Prevention Measures in SMEs*. *International Journal of Business Research and Management*, 3(2), 90–99.
- Shkurti, R. (2017). *Internal Control System and Activities - a Study with Albanian Companies*, (4), 601–611.
- Smith, M. (2019). *Research methods in accounting*. SAGE Publications Limited. World Bank and International Finance Corporation (2018). *A market oriented strategy for Cooperatives*, pp204-233. Washington DC.
- Waddock, S. (2001). *Corporate citizenship enacted as operating practice*. *International Journal of Value-Based Management*, 14(3), 237-246.
- Wambua, B. J., Okibo, W. B., Nyang'au, A., & Ondieki, S. M. (2015). *Effects of Inventory Warehousing Systems on the Financial Performance of Seventh Day*

Adventist Institutions: A Case of Adventist Book Centers (ABC), Kenya.
International Journal of Business and Management, 10(4), 259.

Zaccheaus, S. A., Oluwagbemiga, O. E., & Olugbenga, O. M. (2014). *Effects of corporate social responsibility performance (CSR) on stock prices: Empirical study of listed manufacturing companies in Nigeria.* IOSR Journal of Business and Management, 16(8), 112-117

APPENDIX 1: LETTER OF APPROVAL



**JARAMOGI OGINGA ODINGA
UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**DIVISION OF RESEARCH, INNOVATION AND OUTREACH
JOOUST-ETHICS REVIEW OFFICE**

Tel. 057-2501804
Email: erc@jooust.ac.ke
Website: www.jooust.ac.ke

P.O. BOX 210 - 40601
BONDO

OUR REF: JOOUST/DVC-RIO/ERC/E3

27th June, 2022

Lameck Cheloti
B151/40233/2018
JOOUST

Dear Mr. Cheloti,

RE: APPROVAL TO CONDUCT RESEARCH TITLED "EFFECTS OF INTERNAL CONTROL ACTIVITIES ON FINANCIAL PERFORMANCE OF AGRICULTURAL PRODUCER CO-OPERATIVES SOCIETIES IN SABOTI SUB-COUNTY"

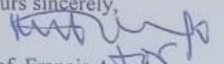
This is to inform you that JOOUST ERC has reviewed and approved your above research proposal. Your application approval number is ERC 31/6/22-14. The approval period is from 27th June, 2022–26th June, 2023.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations and violations) are submitted for review and approval by JOOUST IERC.
- iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to NACOSTI IERC within 72 hours of notification.
- iv. Any changes, anticipated or otherwise that may increase the risks of affected safety or welfare of study participants and others or affect the integrity of the research must be reported to NACOSTI IERC within 72 hours.
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to JOOUST IERC.

Prior to commencing your study, you will be expected to obtain a research permit from National Commission for Science, Technology and Innovation (NACOSTI) <https://oris.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,


Prof. Francis Ang'wa
Chairman, JOOUST ERC

Copy to: Deputy Vice-Chancellor, RIO

Director, BPS

Dean, SBE

/dm

APPENDIX 2: LETTER OF AUTHORITY



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE & TECHNOLOGY

BOARD OF POSTGRADUATE STUDIES

Office of the Director

Tel. 057-2501804

Email: bps@jooust.ac.ke

P.O. BOX 210 - 40601

BONDO

Our Ref: B151/4233/2018

Date: 10th June 2022

TO WHOM IT MAY CONCERN

RE: LAMECK CHELOTI – B151/4233/2018

The above person is a bonafide postgraduate student of Jaramogi Oginga Odinga University of Science and Technology in the School of Business and Economics pursuing Master of Business Administration (Accounting Option). He has been authorized by the University to undertake research on the topic: "*Effects of Internal Control Activities on Financial Performance of Agricultural Producer Cooperatives Societies in Saboti Sub-County*".

Any assistance accorded him shall be appreciated.

Thank you.

Prof. Dennis Ochuodho

DIRECTOR, BOARD OF POSTGRADUATE STUDIES

APPENDIX 4: RESEARCH QUESTIONNAIRE

This questionnaire seeks to collect information on “Effects of Internal Controls on Financial Performance of Farmer’ Cooperative Societies in Trans-Nzoia county in Kenya”. Please provide information in the spaces provided as indicated. All the information received will be confidential and only used for academic purposes.

SECTION A: GENERAL INFORMATION

1. What is your gender? Male Female
2. What is your age group?
Less than 20 years 20-29 years 30- 39 years Over 40 years
3. Please indicate your level of education.
Certificate Diploma Graduate Post Graduate Any other
Mention
4. How long have you owned or worked in the organization?
1-5 years 6-10 years 11-15 years 16 years and above
5. How many employees do you have in your firm?
Less than 10 Between 11-100 Between 101-199 200 and Above
6. What form of business do you operate?
Sole trader Private limited company Partnership

SECTION B: EFFECT OF CONTROL ACTIVITIES ON FINANCIAL PERFORMANCE

Indicate your level of agreement with the following aspects by using a scale of 1-5.

1-Strongly Disagree,2-Disagree,3-Neutral,4-Agree,5-Strongly Agree

Variables	SD=1	D=2	N=3	A=4	SA=5
The company's guidelines and procedures assist in ensuring that management directives are followed.	_	_	_	39	51
To carry out the objectives and mission of the organization effectively and efficiently, organization develops control activities.	_	_	14	14	62
Management grants employees restricted permission to carry out specific tasks and complete specific transactions.	_	_	_	39	51
Information from both external and internal parties is readily available.	_	_	_	13	77
Internal controls are implemented by the company, which improves performance of FCSs.	_	_	_	5	85
The person who performs reconciliation is the same person who approves transactions.	_	_	_	49	41
Reconciliations is consistently documented and authorized by management.	_	_	_	13	77
The FCSs maintains a record of employees' trainings and achievement for the organization.	_	_	_	56	34
Employees are encouraged to report fraud to FCSs, and adequate measures taken to prevent it in the future.	_	_	_	82	08
Effective internal control is attributed to the highly regulated and structured environment in FCSs sector.	_	_	_	11	79
Internal control systems are frequently implemented by FCSs which reduces exposure	_	_	_	54	36

to risk.

The FCSs maintain up-to-date duplicating and recording systems and have efficient staff management.	_	_	_	52	38
Top management committee positively affects financial fraud prevention of the FCSs.	_	_	_	0	90
Total	_	_	14	427	729

- From the responses, highest Frequency=729 showed that respondents strongly agreed, that control activities affects financial performance of FCSs.

SECTION C: EFFECT OF INFORMATION AND COMMUNICATION ASSESSMENT ON FINANCIAL PERFORMANCE

Indicate your level of agreement with the following aspects by using a scale of 1-5.

1-Strongly Disagree,2-Disagree,3-Neutral,4-Agree,5-Strongly Agree

Descriptive statistics of information and communication.

Variable	SD=1	D=2	N=3	A=4	SA=5
Transfer of information on financial matters is effectively communicated.	-	-	-	59	31
Records on Financial matters are well kept and analyzed.	-	-	-	59	31
Internal audit information is communicated to employees regularly.	-	-	--	0	90
There is efficient communication and feedback mechanism from the lowest level to the highest level.	-	-	--	23	67
Past financial records are well kept and accessible when needed.	-	-	-	44	45
Total	-	-	-	185	264

- From the responses, highest Frequency=264 showed that respondents strongly agreed, that information and communication affects financial performance of FCSs.

SECTION D: EFFECT OF RISK ASSESSMENT ON FINANCIAL PERFORMANCE

Indicate your level of agreement with the following aspects by using a scale of 1-5.

1-Strongly Disagree,2-Disagree,3-Neutral,4-Agree,5-Strongly Agree

Variables	SD =1	D= 2	N= 3	A= 4	SA= 5
Internal audit and structure of the FCSs is an important part of reliable financial reporting	–	–	–	57	33
The FCSs management’s responsibility is to design internal controls to ensure efficiency and effectiveness	–	–	–	39	51
The management of FCSs determine the level of risk carefully and try to maintain such risk within determined levels.	–	–	–	06	84
Development of the FCSs internal audit effectiveness of health care, the financial statements reflect the quality of the internal audit	–	–	–	0	90
The external; auditors respond to the role of the board when making judgments with respect to control risk assessments.	–	–	–	12	78
It is necessary for every FCSs to manage its risks in order to minimize the loss exposure	–	–	–	06	84
The FCSs risk management requires the operation of risk evaluation and mitigation.	–	–	–	56	34
The organization identifies and analyzes management relevant risks to the preparation of financial statements.	–	–	–	12	78
The FCSs risk-buffer strategy towards perceived risks helps them achieve higher risk performance.	–	–	–	56	34
There is always periodic performance review and evaluation by the internal auditor for the FCSs.	–	–	–	04	86
There is careful assessment of factors that affect the possibility of objectives of the organization not being achieved.	–	–	–	11	79
Total	–	–	–	259	731

- From the responses, highest Frequency=731 showed that respondents strongly agreed, that risk assessment affects financial performance of APCs.

SECTION E: EFFECT OF CONTROL ENVIRONMENT ON FINANCIAL PERFORMANCE

How effective are the following functions of internal audit through control environment in enhancing organization financial performance? Use a scale of 1-5 where: 5= Strongly agree, 4= Agree, 3 = Neutral, 2= Disagree and 1= Strongly disagree.

Variable	SD= 1	D= 2	N= 3	A=4	SA= 5
Management has defined appropriate objectives for the organization	-	-	-	56	34
Management identifies risks that affect achievement of the objectives	-	-	-	55	35
Management has a criteria for ascertainment of which fraud related risks to the organization are most critical	-	-	-	0	90
Management has put in place mechanisms for mitigation of critical risks that may result from fraud	-	-	-	12	78
Management provide assurance that the risks are being appropriately managed	-	-	-	56	34
Assess ethics and values within the organization	-	-	-	40	50
Unplanned and informal reviews of other areas of concern, including unacceptable levels of risk	-	-	-	6	84
Total	-	-	-	225	405

- From the responses, highest Frequency=405 showed that respondents strongly agreed that control environment affects financial performance of FCSs.

SECTION F: EFFECT OF MONITORING ON FINANCIAL PERFORMANCE

Indicate your level of agreement with the following aspects by using a scale of 1-5.

1-Strongly Disagree,2-Disagree,3-Neutral,4-Agree,5-Strongly Agree

Variable	SD=1	D=2	N=3	A=4	SA=5
Monitoring ensures that the findings of audits and other reviews are promptly resolved	—	—	—	42	48
Internal control is adequately designed and properly executed	—	—	—	06	84
The FCSs is monitored in order to assess the quality and the effectiveness of the system's performance over time	—	—	—	12	78
The FCSs effective way to improve financial performance is by reducing the level of irregularity and fraud	—	—	—	54	36
Monitoring of operations ensures effective functioning of internal controls system.	—	—	—	54	36
Management authorization play a pivotal role in ensuring that the resources of a firm in procurement of inventory are used in an optimal manner	—	—	—	0	90
The FCSs periodic comparisons of accounting records and physical asset and a review of activity performance like review of reports on performance.	—	—	—	12	78
The FCSs is monitored for the events and transactions to gauge the quality of performance throughout the period.	—	—	—	54	36
Monitoring has the highest influence on the financial performance of FCSs.	—	—	—	39	51
The management of FCSs is responsible for establishing and maintaining a system of internal control, to be used	—	—	—	15	75
Strong internal control system strengthens enterprise governance, allows management objectives to be achieved	—	—	—	16	74
Monitoring can be done through on-going activities or separate evaluations	—	—	—	38	52
Control Environment must be present for an internal control system to be considered effective.	—	—	—	29	61
Total	—	—	—	371	799

- From the responses, highest Frequency=799 showed that respondents strongly agreed that monitoring affects financial performance of APCs.

SECTION G: FINANCIAL PERFORMANCE

Indicate your level of agreement with the following aspects by using a scale of 1-5.

1-Strongly Disagree,2-Disagree,3-Neutral,4-Agree,5-Strongly Agree

	Statement	1	2	3	4	5
1.	There was increase in the profits				56	34
2.	Sales growth experienced by the firm				6	84
3.	There is a positive return on investment				12	78
4.	There was increase in share capital				56	34
5.	There was improved accountability on the financial management				57	33

Thank you for your participation

APPENDIX 5: INTERVIEW GUIDE

This interview guide seeks to collect information on Effects of Internal Control on Financial Performance of FCSs in Trans-Nzoia county in Kenya.

RESPONDENTS INFORMATION

1. Does the organization have policies and procedures that help ensure management directives are carried out?
2. Is the information from external and internal parties easily accessible?
3. Does the organization implement internal controls which enhance performance of FCSs?
4. Is reconciliation always documented and approved by management?
5. Does the FCSs keep record of employees' trainings and achievement for the organization?
6. Does the FCSs fraud reporting from employees is encouraged and adequate measures are taken to counteract them for the future?
7. Does the FCSs often create contingency risk plans and implement internal control systems are less exposed to risk?
8. Does the FCSs maintain adequate recording and duplicating systems have efficient staff control?
9. In your own view does the top management team positively affect financial fraud prevention of the FCSs?
10. Is internal audit information communicated to employees regularly?
11. Is there an efficient communication and feedback mechanism from the lowest level to the highest level?
12. Are the past financial records well-kept and accessible when needed?
13. Is there careful assessment of factors that affect the possibility of objectives of the organization not being achieved?
14. Is there always periodic performance review and evaluation by the internal auditor for the FCSs?
15. Does the FCSs management's takes responsibility to design internal controls to ensure efficiency and effectiveness
16. How the FCSs management does implements the risk control environment on the financial performance?
17. Does the management of the FCSs provide assurance that the risks are being

appropriately managed?

18. Does the FCSs periodically compares the accounting records and physical asset and a review of activity performance like review of reports on performance?
19. Does the FCSs being monitored for the events and transactions to gauge the quality of performance throughout the period?
20. How has internal control activities affected the financial performance of your organization?

APPENDIX 6: TARGET POPULATION

	Directors	FOs	OPM	Accountants	Total
SABOTI SUB-COUNTY					
1. Muroki Coffee Cooperative Society	1	1	1	1	4
2. Mengo Coffee Cooperative	1	1	1	1	4
3. Kapretwa Cooperative Society	1	1	1	1	4
4. Elgon Tea Cooperative Society	2	1	3	3	9
5. Birunda Farmers' Cooperative Society	1	1	1	1	4
6. Kitalale Cooperative Society	1	1	1	1	4
7. Manor House Cooperative Society	1	1	1	1	4
KIMININI SUB-COUNTY					
8. Bubayi Mungo Cooperative Society	3	3	3	2	11
9. Wamuini Cooperative Society	2	1	1	2	6
10. Sikhendu Cooperative Society	1	1	1	1	4
11. Maili Saba Cooperative Society					
12. Waitaluk Cooperative Society	1	1	1	1	4
13. Tulwet Cooperative Society	1	1	1	1	4
KWANZA SUB-COUNTY					
14. Amuka Cooperative Society	1	1	1	1	4
15. Chepchoina Cooperative Society	1	1	1	1	4
16. Bidii Cooperative Society	1	1	1	1	4
17. Goseta Cooperative Society	1	1	1	1	4
CHERANGANY SUB-COUNTY					
18. Makutano-Ngozi Cooperative Society	1	1	1	1	4
19.. Sirwo Farmers Cooperative Society	1	2	2	1	6
20. Bwake Cooperative Society	1	1	1	1	4
21. Kapsara Tea Cooperative Society	3	4	3	3	13
22. Maridadi Cooperative Society	1	1	1	1	4
ENDEBESS SUB-COUNTY					
23. Matumbei Cooperative Society	1	1	1	1	4
24. Namwichula Cooperative Society	2	2	1	1	6
25. Naisambu Cooperative Society	1	1	1	1	4
26. Endebess Cooperative Society	1	1	1	1	4
TOTAL	33	33	33	33	132

APPENDIX 8: TRANS-NZOIA COUNTY MAP.

