

**CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE
OF LICENSED DEPOSIT-TAKING SACCOS IN KIAMBU COUNTY,
KENYA**

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DECLARATION

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

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Supervisors Declaration

I confirm that the work reported in this project was carried out by the candidate under my supervision as University supervisor.

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DEDICATION

To my mother, Elizabeth Waithira, I wish to thank you for your tireless effort throughout my life, continuous encouragement and support during my academic endeavours. To my wife Salome, I thank her most sincerely for being on my side all through my life in campus. To my daughters Eva and Junita, Sons Edwin and Billy, for appreciating the efforts of their dad.

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OPERATIONAL DEFINITION OF TERMS

Cooperatives: refers to a self-governing association of people joined willfully to accomplish a common financial goal.

Corporate governance: is the framework of laws, policies, customs, procedures and practices affecting the way a SACCO is controlled, directed and administered.

Deposit taking SACCOs: refers to those SACCOs that take demand deposits, and offer both withdrawable and non-withdrawable savings accounts services to the members and stakeholders.

Financial performance: is the measure in financial terms of Return Of Asset (ROA), Return on Equity (ROE) and liquidity.

Financial reporting: refers to disclosure of financial information to management and the public about how the SACCO is performing over a specified period of time.

Internal control: Action that encompasses policies and techniques received by the administration of a substance to help with accomplishing the essential targets of the administration by ensuring that the operation is effective.

Transparency and disclosure: Refers to the degree to which data streams candidly inside the SACCO operation, among its administrators and representatives. Transparency and disclosure prevents theft and cultivates proficiency in the line of monetary distribution and management with the SACCO.

ABBREVIATION AND ACRONYMS

ACCOSCA	Africa Confederation of Cooperative Society Savings & Credit Association
ANOVA	Analysis of Variances
ANOVA	Analysis of Variance
BCCI	Bank of Credit Commerce International
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity
CBK	Central Bank of Kenya
CBK	Central Bank of Kenya
CEO	Chief Executive officer
CSA	Cooperative Societies Act
EPS	Earnings Per Share
FOSA	Front Office Savings Activity
IAS	International Accounting Standards
ICA	International Cooperative Alliance
IFRS	International Financial Reporting Standards
IFRS	International Financial Reporting Standards
KNFC	Kenya National Federation of Cooperatives
KUSCCO	Kenya Union of Savings and Credit Cooperatives
OECD	Organization for Economic Co-operation and Development
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rates of Return and Cost, Liquidity, Signs of Growth

PGGPCGD	Publication of Guidance on Good Practices in Corporation Governance Disclosure
RBS	Risk Based Supervision
ROA	Return on Asset
ROA	Return on Assets
ROE	Return on Equity,
ROI	Return On Investment
SACCOs	Savings and Credit Cooperatives
SASRA	SACCO Societies Regulatory Authority
SSA	Sacco Societies Act
UNCTD	United Nations conference on Trade and Development
WOCCU	World Council of Credit Unions

ABSTRACT

Deposit taking saving and credit societies play a basic role in the provision of financial services to the Kenya household and small business segment. Deposit Taking SACCOs are those that provide products similar to banks most of which were set up long time. However, their performance is defective and tremendously varies as compared to commercial banks. Further, there are less previous studies focusing on the effect of corporate governance on financial performance of Deposit-Taking SACCOs in Kiambu County. The purpose of this study was to investigate corporate governance and financial performance of licensed Deposit-Taking SACCOs in Kiambu County, Kenya, for the years 2015 to 2019. The study sought to address the following research objectives; to determine the status of corporate financial reporting on financial performance of licensed deposit-taking SACCOs; to determine the status of transparency, disclosure requirements and accountability on the financial performance of licensed deposit-taking; and to establish the extent to which internal controls affect the performance of licensed deposit-taking SACCOs in Kiambu County, Kenya. The research adopted descriptive research design to examine the relationship between corporate governance and the financial performance of licensed Deposit-taking SACCOs in Kiambu County, Kenya. The researcher decided to select Kiambu County for research because it has the largest distribution of Deposit-taking SACCOs in the country ranking second from Nairobi, thereby providing a reliable picture. Multiple regression models were used to establish the relationship between independent variables and dependent variables. The researcher adopted the census method of data collection because the SACCOs licensed by SASRA are few in number i.e. fourteen (14). The target population was the fourteen (14) licensed Deposit-taking SACCOs operating in Kiambu County, as at December 2019. Questionnaire was administered to the executive officers, senior managers, employees and members of the SACCO to collect primary data. The questionnaire was a Likert scale format. Secondary data was collected from the fourteen (14) audited financial statements at SASRA offices for the years 2015 to 2019. Primary data was analyzed using descriptive techniques i.e. mean, standard deviation and frequencies. The analysis was based on excellence set by the World Council of Credit Unions (WOCCU). ANOVA was used to test whether Deposit-taking SACCOs have proper corporate governance structures. From the study findings, Pearson correlation between the variables showed a positive relationship between independent variables (corporate financial reporting, transparency and disclosure, internal control system) and dependent variable (financial performance of deposit-taking SACCOs). Moreover, coefficient of adjusted determination was 0.789 which translates to 78.9%. This shows that variations in dependents variable was explained by the independent variables. The study concluded that corporate governance practices influenced the financial performance of the deposit-taking SACCOs in Kiambu County. The study recommends that SACCOs should adhere to transparency and disclosure requirements set by Sacco Societies Regulatory Authority (SASRA). The financial reports should be available and updated throughout and internal control system should be improved and implemented diligently towards keeping the accounting records and financial reports accurately.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate involves a framework of checks and balances that allows organizations set their goals and build suitable policies to accomplish those goals as well as monitor the performance of the organization (Larcker & Tayan, 2016). According to Khafid, Baroroh and Firmasyah (2018) good corporate governance enables companies to uphold sustainability over a relatively longer period while retaining interest of stakeholders. Based on the context of the current study, Sarbah and Xiao (2015) opine that corporate governance encompasses the processes and structure set up for control and direction of cooperatives as well as the management of affairs among managers, shareholders, board members and other stakeholders whilst preserving and advocating transparency.

As well-defined by Empower (2016), a cooperative is a self-governing association of persons united to accomplish common economic needs, cultural needs and goals through a conjointly owned and legitimately controlled enterprise. Traditionally, cooperatives had the major goal of pooling scarce resources, eradicating middlemen and realizing a common interest. For instance according to Sang (2011), cooperatives ideals can be reflected in communal grazing, building houses in unity, tilling land together and engaging hunting in groups of hunters. However, in this contemporary world, cooperative association is administrated based on principles of open and voluntary membership, democratic administration, economic engagement by members, autonomy and independence (International Financial Reporting Standards IFRS, 2016).

Globally, there are over 60,500 Credit Unions spread across 109 countries in 6 continents (World Council of Credit Unions, 2013). Reports by the IFSR (2016E) show that cooperatives have a membership of more than one billion in the world and more than 250 million persons earn their income as members or employed of cooperatives. Usually, a SACCO comprises of a minimum of 10 members and normally there is no maximum number. Just like in commercial banks, members of a SACCO are encouraged to save their money with the SACCO (Empower, 2016). The SACCO is responsible in ensuring that members receive loans on a timely basis and interest on their deposits at the end of every financial year. Nevertheless, a good number of SACCOs have been unable to conduct their mandate as a result of inadequate internal funds, high cost of external financing, low capitalization and inflexible capital adequacy requirements.

Olomy (2015) states that the corporate governance is increasing interest to SACCOS as it is contemplated to be one of the weakest areas in the finance industry. The major reason for a prioritized governance in SACCOs is that quick growth in service providers of various types leads to a greater number of clients and assets (Odera, 2012). Rose and Sharfman (2014) perceives corporate governance as both the structure and relationships which predicts corporate direction and performance. Thus corporate governance is considered as the whole set of actions taken within the enterprise to favour the economic agents to engage in the productive process towards creating organizational surplus with the cooperatives.

Hoque (2014) highlights that financial performance is used as a general measure of SACCOs' overall financial health over a given set of duration and can be used to compare the SACCOs across the cooperative industry in aggregation. In doing so, the results of SACCOs policies and operations in monetary terms are evaluated to give the degree of financial performance (Okiro & Ndungu, 2013). Thus corporate governance is an essential requirement for survival and a gauge of prospect of a SACCO. In the process, the capital, asset and earnings values are the major factors involved.

Basing on performance, studies conducted by Chipembere and Financial Sector Deepening (2009) assert that performance of SACCOs mainly is determined by the management and governance structures. In this regard, it has been noted that well governed SACCOs largely perform better and that good corporate governance is of essence to SACCOs' financial performance. According to Wandabwa (2010) it is believed that good governance generates investor goodwill and confidence. Claessens and Horen (2014) also posit that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders.

In Kenya, it is evident that SACCOs are among the top sources of credit in terms of loans for socio-economic development (Mutua, 2016). The prominence of SACCOs has also been spread to rural through local SACCOs forming an integral part of the Government economic strategy towards creating income generating opportunities in the remote areas (Wachira, 2015).

In Kenya, SACCOs are regulated by the government through the SACCOs Societies Regulatory Authority (SASRA), which is a semi-autonomous government agency under the Ministry of Industrialization and Enterprise Development (Omari, 2012). It is evident that there has been growth of SACCOs across Kenya, both in urban and rural setting. For the umbrella body for SACCOs, KUSCCO Limited was awarded the 2013 outstanding membership Growth Award in a recognition of the fact that SACCOs in Kenya have the highest growth rate worldwide (WOCCU, 2013). According to SASRA (2015) the number of SACCOs in Kiambu County has tremendously grown. There are 95 registered SACCOs. However out of those SACCOs, 30 registered SACCOs are dormant while 65 registered SACCOs are active (Ministry of cooperative officers in Kiambu County, 2019).

1.1.1 Corporate governance

Comprehensive corporate governance improves the overall of SACCOs and increases accessibility to external funding which leads to sustainable economic development and growth whereas reducing vulnerability to financial crisis (Sarbah & Xiao, 2015). However, Kishore (2018) emphasizes that corporate governance ought to be a perfect approach that leads to long-term substance of business, in this case the SACCOs' financial prospect. Price (2018) also points out that it is essential for every firm to adopt to best practices for corporate governance to enhance performance and advance trust among shareholders and other stakeholders.

There are numerous models around the globe. For instance, the Anglo-American model appears to emphasize the interests of shareholders. However, the coordinated or Multi-stakeholder model linked to Continental Europe and Japan also acknowledges the interests of suppliers, clients, workers, managers and the community (Douma & Shreduda, 2013). According to School and Sherwood (2014), corporate governance in SACCOs acts as a steering towards social, economic and cultural success. Thus, SACCOs administrators must have capacity and ability to comprehend on the philosophy governing cooperatives, own responsibility and needs of their members.

In Kenya, Kamau, Machuki & Aosa (2018) in a recent study on sound governance and performance of Kenyan financial institutions presumed that implementation of effective corporate governance structures enhances organizational performance. Kinyuira (2017) also in a study in Kenya on cooperative governance and sustainable performance of SACCOs concluded that effective cooperative governance positively impacts SACCOs' performance. Corporate governance can be observed as a lot of connections between organization executives, investors and different partners as it tends to the forces of chiefs and of controlling investors over the minority premium, the privileges of representatives privileges of loan bosses and different partners (Mureithi, 2009).

Nicolaescu (2012) argues that good corporate governance ensures that the business environment is fair and transparent and thus SACCOs can be held accountable for their actions. In this perspective, corporate governance is reflected in both social and institutional dimensions both focusing on implementing the values of equality,

transparency, accountability and responsibility to both shareholders and stakeholders. The main objective was to examine whether or not the factors (independent variables) taken into consideration could predict the effect of financial performance of SACCOs through corporate governance, those independent variables financial reporting, transparency and disclosure, internal control and monitoring activities.

1.1.2 Financial Performance and Licensed Deposit-Taking SACCOs

Performance of SACCOs is understood by how successfully the cooperative utilizes its resources from its key duty of conducting business and its consequential returns with respect to financial annual reports. The expansion in the number of DTS's has been attributed to the decrease in the common-bond structures (SASRA, 2016). According the findings by SASRA (2016) the performance of the DTSs has demonstrated an upward curve of growth during the period 2013-2015. These were measured in terms of growth of membership from 2,612,250 to 3,145,565, increase in deposits from Ksh. 172 Billion in 2013 to Ksh. 237 Billion in 2015 representing annual growth rate of 17% in average, and finally assets owned from Ksh. 251 Billion in 2013 to Ksh. 342 Billion in 2015. These growth patterns are indicators of the significance of these cooperatives in mobilization of savings and provision of credit to Kenyans.

Cooperative societies as formal organizations enable their membership make efforts to achieve any common objectives on voluntary and democratic basis. The total assets in the Kenya's SACCO sector increased to K.sh.248 billion from K.sh. 216 billion in 2010. Currently, the sector is the largest in Africa and accounts for 60, 64, and 63 per cent of

the continent's savings, loan and assets respectively according to (SASRA, 2011). The use of financial products in SACCO saving increased from 9.2 to 10.6 in 2009 and 2013 while ratios for obtaining SACCO credit were 3.1 and 4.0 respectively, an indication of increased activity according to (CBK, 2015). SACCOs need to safeguard gains made so far and build confidence since bankruptcy of a SACCO will be a manifestation of instability in the sector.

Financial performance measures how well an organization is generating revenue for the shareholders. Financial performance is the result of many of different activities undertaken by a firm. In light of WOCCU's guidelines of estimating execution, the elements which decide the exhibition of the authorized store taking SACCOs to incorporate resource base, liabilities, execution of the advance book, corporate administration and the nature of staff and guidelines in the business (SACCO social orders Regulatory Authority Report, 2017).

The country's state of economy impacts heavily on SACCO membership including loan intake. Mpiira et al. (2013) point out that many will not join SACCO where there is no feasible economic enterprise that would make them income. As a result, there would be reduction of member's savings and increased demand for loans following the undermined functioning of the SACCOs attributed to destabilized member's incomes (Lim, 2014).

Parast and Fini (2010) indicate that firms do look for approaches and effective strategies to enhance their operating performance and improve their levels of the profit. Equally, SACCOs' financial performance can also be perceived in light of their general

profitability and return on investment. When a firm's profitability analysis is carried out, what is mainly considered is how much a firm earns with respect to the level of profits, assets employed or the owner's investment. The common profitability measures therefore include the Return on Assets (ROA), Return on Equity, earning per share and the price-earnings ratio. However, for the purpose of the current study, performance of the SACCOs was measured based on.

1.1.3 Financial Reporting and Financial Performance

Financial reporting includes the divulgence of financial data to the executives and general society about how the organization is performing over a predetermined timeframe. Financial reports are generally given on a quarterly and yearly premise. Financial reporting fills two essential needs for example it encourages the board to take part in powerful basic leadership concerning the organization's destinations and by and large methodologies (Annual Supervisory survey, 2018). The information uncovered in the report can assist the board with observing the qualities and shortcomings of the organization, just as its partners including its investors, potential financial specialist, shoppers and government controllers.

The board disclosures financial condition and results of operation over the period under review and known trends which are likely to have material effect on the financial condition and results of the operation in the future and it has complied with applicable financial reporting standards in preparing financial statements and any deviation from financial policies. Accurate financial reporting will enhance good corporate governance,

financial stability and confidence from the SACCO's stakeholders. Financial reporting is the blood of the entity (SACCO Annual Supervisory Report, 2018).

The SSA and the Regulations 2010 made there under require SACCOs to submit to the authority a diverse range of statutory reports, returns and other information to the Authority on a periodic basis, mainly monthly, quarterly and annually. These statutory reports, returns and other information are critical components and tools for the daily monitoring and evaluation of the financial performance of the SACCOs such as their liquidity status, capital adequacy and asset quality.

1.1.4 Transparency and Disclosure

Transparency provides a framework of checks and balances between the main players like the board of directors, senior level of management, auditors and other stakeholder (Khafid & Nurlaili, 2017). On the other hand, Discloser encompasses all forms of voluntary corporate communications and good corporate governance disclosure systems show that the organization has the ability to impress the market with its integrity. Around the globe, there has been remarkable academic interest on the level and determinants of disclosure in corporate annual reports by firms in the United States of America in the past years (Waleed, 2014).

Disclosure, whether mandatory or voluntary, financial or social, provides a channel for enhancing market discipline in the financial sector. Financial disclosure refers to the provision of an organization's disclosures relating to its performance, position, changes in performance and accompanying notes to the annual report (Quayes & Hasan, 2014).

According to Njuguna (2009), financial transparency and information disclosure are important aspects of good governance in an organization. Broadly characterized transparency as a degree to which data streams openly inside an association, among directors and representatives, and outward to partners. Practicality for example data unveiled must be convenient to empower financial specialists to respond as fast as would be prudent. Transparency, for example, data unveiled must be effectively open and accessible to financial specialists with ease (Sacco Review Annual Report, 2017). However, lack of transparency has been identified as a key reason for the financial crisis facing organization. Companies which provide voluntarily information on governance have a lower cost of equity capital. Disclosure policy is a predictor for the interrelation between corporate governance and firm performance. Further, there is causality between timely disclosure and economic profit (Khlif & Souissi, 2010).

According to WOCCU SACCO CAP Kenya (2009) corporate governance challenges and weak disclosure practiced by SACCOs in Kenya have led to regulatory reforms projected at promoting public confidence by ensuring the security of member's funds and financial soundness in the SACCO sector. To comprehend the level of transparency and disclosure by SACCOs, this sought to establish whether transparency and disclosure influenced financial performance of Deposit-Taking SACCOs in Kiambu County, Kenya,

1.1.5 Internal control system and control activities on financial performance

Internal control system is vital to success and survival of any organization in today's contemporary world and changing environment because they keep the firm on the right

position and direction and reduce business failure and financial scandals. According to Wanemba (2010) internal control systems have become vital in most Kenyan banks as they form they form the pillar efficient accounting system. Thus, from management point of view, there is vital need to ensure that internal control systems are set up in order to curb the occurrence of fraud (Welstra, 2014).

Internal control system is understood in two forms, financial and non-financial controls where financial controls entails financial activities related to cash receipts and payment for financial operations while non-financial internal control involves those activities which are indirectly financial in nature such as human resources selection and laid down procedures (Narwal & Jindal, 2015). According to Toghil (2017), for a SACCO to enhance their operations and performance it requires to improve their standards of cooperate governance mechanism by formulating a framework that controls and directs the SACCO. This is majorly based on the principles of good governance, fairness, accountability, transparency and responsibility (Naimah & Hamida, 2017). Hence, SACCOs with sound corporate governance maintain complex systems of checks and balances. The practices of internal control on finance would also ensure that board members and committees are independent of management henceforth taking actions that are of best interest to the shareholders.

The sustainability of any association relies upon the successful and productive use of assets (money related and non-monetary at the transfer of the association). Subsequently, to improve the use of assets depended on all representatives in an association, different

types of control are set up by the administration of the association, among the significant controls are inside control an inner review to specify a couple. Sound corporate administration according to interior control upgrades the general performance of organizations and builds availability to outside subsidizing which adds to supportable monetary turn of events (Sarbah & Xiao, 2015) while lessening their weakness to monetary emergencies (Narwal & Jindal, 2015).

Corporate administration is these days expected to be a decent system that prompts long haul food of organizations (Kishore, 2018). Henceforth, it is fundamental for each element to hold fast to best practices for corporate administration. Also, stable corporate administration improves authoritative execution and advances trust among investors and different partners (Price, 2018). Accordingly, selection of powerful corporate administration structures by organizations is fundamental in improving their exhibition while accepting manageability.

Locally, report incorporated by the SACCO Societies Regulatory Authority (SASRA, 2017) shows that numerous SACCOs have been utilizing inventive bookkeeping strategies to conceal extortion and non-installment of credits by certain individuals. In one of the plans featured, Sacco individuals paid credits and clerks made passages into the computers, yet the cash was not banked. One clerk couldn't clarify the whereabouts of Sh324 million while another couldn't represent Sh30 million, as indicated by a preliminary equilibrium run among January and August 2014, the sums were path over the cutoff points clerks are permitted to hold. Despite the fact that it is not clear why the

computer framework utilized by the clerks was not completely coordinated into SACCO's score framework, an interior review presumed that super clients, normally top directors, abetted the fraud.

Taking a gander at the authorized store taking SACCOs for instance in Kiambu County, it is constantly under the influence of certain bodies, for example, SASRA (SACCO Society Regulatory Authority) Act 2008. SASRA statutory body screens and impacts the exercises of all authorized deposit-taking SACCOs in the nation straightforwardly or by implication. It has been set up that a misrepresentation is a lethal sickness to any budgetary organization, in such a case that permitted to develop and eat profoundly into the financial framework, it unavoidably prompts trouble as it has as of late occurred with (Metropolitan SACCO society March, 2019). Proof from ongoing banks with respect to extortion and falsifications in business vendor banks uncovers that the wonder is on the upward pattern, for example, the occurrences of misrepresentation and fabrications have been expanding, in spite of the control estimates set up by singular banks. The subject extortion has progressively picked up the consideration of the money related and supervisory specialists, in perspective on the way that misrepresentation brings about tremendous budgetary misfortunes (Annual supervisory Report, 2017). The researcher intended to research the impact of the above challenges in Licensed-Deposit Taking Saccos in Kiambu County, Kenya.

1.2 Statement of the Problem

Corporate governance includes an arrangement of governing rules that allows organizations to set their goals and set up proper procedures to accomplish those objectives just as seen in organizational execution (Larcker and Tayan, 2016). Corporate governance offers sufficient and fitting frameworks of control inside an organization; best administration of interests of investors and partners while empowering both transparency and responsibility (Mallin, 2013). Also, corporate governance principles have become essential for investors, potential investors, creditors and governments. A study by Khafid, Baroroh and Firmansyah (2018) revealed that great corporate governance empowers associations to keep up maintainability over an extensive stretch while keeping up interests of partners. The limited studies in the area have focused mainly on developed economies. It was therefore essential to examine the relationship in the context of a developing economy, which the current study sought to fill. Akinyomi and Olagunju (2013) set up that firm size of the SACCOs determines its monetary presentation. Muraguri (2013) found that liquidity decidedly impacts monetary execution of SACCOs that take stores. However, despite efforts by SACCOs and recommendations from various scholars, SACCOs still struggle with liquidity issues, financial reports are not prepared on time, frauds and misuse of institutional resources is still rampant.

Locally, a few studies have been done by Mwachiro (2013) and Wainaina (2011) were done on adequacy of inside controls on execution and the board proficiency of different firms including Deposit Taking SACCOs. Jebet (2001) led an investigation of corporate administration rehearses among the cited organizations in Kenya, Muriithi (2005) did an

examination on the connection between corporate administration systems and execution of firms cited on the NSE, Manyuru (2005) explored on corporate administration and hierarchical execution the instance of organizations cited at the NSE while Matengo (2008) did an examination on the connection between corporate administration practices and execution: the instance of financing area ventures in Kenya. The findings of the above studies clearly showed that corporate administration methodologies emphatically affect financial performance of the organization. Nevertheless, none of these studies have focused on the impact of corporate governance on performance of SACCOs in Kiambu County, Kenya. It is also evident that most of the studies have shown mixed results without a clear-cut relationship between corporate governance and financial performance. This research study was to investigate the relationship between corporate governance practices and financial performance of licensed Deposit-Taking SACCOs in Kiambu County, Kenya based on financial reporting, transparency and disclosure and internal control system.

1.3 Research Objectives

1.3.1 General Objective

The main objective of this research study was to investigate the relationship between corporate governance practices and financial performance of licensed Deposit-Taking SACCOs in Kiambu County, Kenya.

1.3.2 Specific Objectives

- i. To determine the effect of corporate financial reporting on financial performance of Licensed Deposit-Taking SACCOs in Kiambu County, Kenya.
- ii. To determine the effect of transparency and disclosure on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya.
- iii. To determine the effect of internal control systems on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya.

1.4 Research Questions

The study sought to answer the following questions

- i. What is the effect of corporate financial reporting on financial performance of licensed deposit taking SACCOs, in Kiambu County, Kenya?
- ii. What is the effect of transparency and disclosure on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya?
- iii. What is the effect of internal control system on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya?

1.5 Significance of the Study

The study findings may provide invaluable insights to financial management leaders and policy makers in properly targeting the pillars of effective SACCO stewardship owing to their significant contributions to the sector. SACCO Sector in general and practitioners in particular would likely be activated by the findings to invest their utmost creative abilities in developing internal factors to manage and improve SACCOs' performance in Kenya.

The investigation would be critical to researchers and academicians by adding to the assemblage of existing information on corporate administration.

The study findings may be beneficial to researchers and academicians by creating a platform for further research study on related topics; it may also act as a resourceful tool for other academicians who intend to study the same topic in their area of specialization.

This research study may also help to highlight other important variables that require further research study; this may be focusing on other variables that affect SACCO performance.

1.6 Scope of the Study

The study focused on licensed deposit-taking SACCOs in Kiambu County. As at December 2019 there were estimated 14 licensed deposit taking SACCOs in Kiambu County. The study covered a period of 5 years from year 2015 to 2019. This period provides the researcher with the current information about the SACCOs in Kiambu County. The primary data was collected from SACCOs' staff and secondary data from audited financial statements of SACCOs. The researcher intended to analyze audited data of SACCOs available for the five years' period under study.

1.7 Limitations of the Study

The researcher encountered some limitations in accessing information due to reluctance of the board officials and management to respond to the questionnaires. This forced the researcher to visit their offices repeatedly. Reluctance of the management to release the

financial statements to assess the SACCOs profitability/losses was also a problem since such information is confidential to some of the SACCOs. The researcher solved such problems by getting an introduction letter from the university to explain that the information is intended purely for academic purposes and would thereby be treated with confidentiality deserved.

Further, the investigation was limited as far as substance since it just viewed as three variables as financial reporting, transparency and disclosure and internal controls. Nonetheless, the prohibition of other inner variables sets out a freedom for different investigations to expand a comparable report, however zeroing in on other inside factors.

The examination additionally viewed as just the financial performance of SACCOs though there could be non-monetary indicators of performance. It is normal that different examinations will broaden a comparative report, but focus on non-monetary pointers.

The SACCO confidentiality policy limited the majority of the respondents from addressing a few inquiries in the poll. This would have been viewed as against the privacy strategy to uncover the association's private issue. The scientist relieved this restriction by introducing a presentation letter acquired from the college to the separate SACCO management to avoid suspicion and enable the management to disclose much of the information that was sought by the study on the effect of corporate governance on financial performance of savings and credit societies in Kenya.

1.8 Organization of the Study

This study has five chapters that is chapter one to five. Chapter one entails background to the study, statement of the problem, objectives of the study, research questions, significance of the study, scope and limitation of the study and organization of the study. Chapter two entails literature review, empirical study and conceptual framework while chapter three contains the research methodology of the study. Additionally, chapter four covers research findings and analysis while Chapter five presents the summary of major findings, discussions of the findings vis-à-vis the literature review, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains the factors and principles influencing corporate governance and their supporting corporate governance. It reviews prior studies on the relationship between corporate governance and the firm's financial performance. The chapter justifies the selection of the elements of corporate governance necessary for good governance. It explains the concept of financial performance. The chapter aims to provide the theoretical background to the research through a literature review.

The literature review provides evidence of the relationship between corporate governance and the financial performance of Deposit-Taking SACCOs in Kiambu County, Kenya. The literature review is based on corporate governance mechanisms of board practices/financial reporting, transparency and disclosure, and internal controls.

2.2 Theoretical Review

A theory conforms related thoughts that are put together to summarize information of particular type about the world. The study was grounded on the agency theory, stewardship theory, and stakeholder model theory, theory of internal controls and growth of the firm theory.

2.2.1 Agency theory

Meanings of corporate governance contemplated the connection between the investor and the organization according to "agency theory" for example chief operators following up

in the interest of investors. Principals in regulating self-serving practices of the board. Anyway, more extensive definitions are pulling in more prominent consideration (Solomon and Solomon, 2004). Also, successful corporate governance is these days comprehended as including a wide number of members.

Abdullah and Valentine (2009) express that Agency theory clarifies the connection between principals and their operators. Clark (2004) noticed that two elements impact the unmistakable quality of Agency theory. First; the theory thoughtfully separates the SACCO into two gatherings of members, one the administrator and the others, the proprietors. Furthermore, Agency theory recommends that representatives and chiefs in SACCOs will act naturally intrigued. Individuals from SACCOs anticipate that the operator should act and settle on choices to the greatest advantage of the principals (Padilla, 2002).

In Agency theory, the operator may capitulate to personal responsibility, entrepreneurial conduct and missing the mark regarding understanding between the enthusiasm of the head and the specialists' interests. Be that as it may, agency theory was presented fundamentally as a detachment of proprietorship and control (Bhimani, 2008). Agency theory this examination is applied to investigate the connection between the proprietorship and the executives' structure and to adjust the objectives of the administration to that of the proprietors.

As indicated by Zenner (2004) all organizations are presented to agency issues, and somewhat create activity intends to manage them. These incorporate building up

measures, for example, "controls on the activities of specialists, observing the activities of operators, budgetary motivators to urge specialists to act in light of a legitimate concern for principals and partition of risk-taking capacities from control capacities" (Zenner, 2004).

2.2.2 Stewardship theory

Stewardship theory takes an alternate perspective on the idea of individuals from agency theory and others. While office hypothesis is based on the suspicion of personal circumstance in human conduct to declare the supervisors as operators, can't be trusted and ought to be completely observed (Padilla, 2002), the stewardship hypothesis reprimands it as a bogus reason and claims that administrators are great stewards of the company (Abdullah & Valentine, 2009). Because of a customary level perspective on the partnership as a legitimate element in which executives have a trustee obligation to investors, the stewardship hypothesis contends that directors are carrying on simply like stewards to serve the investors premiums and steadily work to achieve an elevated level of corporate benefit and investors returns. In this manner, the detachment of possession from control doesn't intrinsically prompt an objective and intrigue struggle among investors and directors.

From the prior, the trusteeship model embraces a reasonable and engaging in a survey the present overseeing circumstance of a freely held organization. Proprietorship is by definition where the proprietor has select privileges of ownership, use, gain and lawful attitude of a material article. Investors simply claim their offers in an organization and exchange their offers with other securities exchange. They don't have the right to have

and utilize the advantages of the organization to settle on a choice about the heading of the organization and to move the benefits of the organization to other people (Mitnick, 2006).

According to Karns (2011) stewardship centered relationship adjusts itself to the basic of society through taking risks and engaging in developmental activities, and through improving others' lives using a business approach. The framework of stewardship thus protects and maximizes the shareholder's wealth in the SACCO.

2.2.3 Stakeholder Model

Stakeholders are the individuals who influence or are influenced by the activities of the association. In stakeholders in this way, the providers, representatives and financial specialists have an association with the administrators who serve them (Donaldson and Preston, 1995). Networks are keen on the SACCO society's administration as key partners as they get profits by being representatives, providers, clients of value items and recipients of corporate social duty arrangements of SACCOs (Agumba, 2008).

SACCOs are intentionally set up by their individuals whose point is to fulfill their own needs. Individuals have two associations with SACCOs. They are the two proprietors and purchasers due to their possession relationship to SACCOs they are financial specialists drove and partners by structure (Emerson, Alves & Raposo, 2011). By the righteousness of their client relationship to the SACCO, individuals are client-driven and characteristic partners. The pertinence of this hypothesis is to the frameworks of SACCOs, for the most part, money related in nature, claimed and constrained by the individuals from the

arrangements of little scale monetary administrations. Each individual from the SACCO is a partner and is relied upon to take part in the significant basic leadership of the SACCOs with a perspective on guaranteeing its endurance.

The theory is applicable in SACCO administration because of straightforwardness and divulgence purposes. Partners of SACCOs reserve the option to be furnished with data about how the SACCO is influencing them for instance arrangement of work, network sponsorship, wellbeing activity, open announcing etc. The interrelationship between different partners increment the straightforwardness of SACCO exercises and execution, thus accomplishing its objectives including an expanded gainfulness, SACCOs are persuaded to unveil data about their different projects to the partners worried as an indication of conformance with partners' desires. In this way, stakeholders related exercises are valuable in creating and keeping up the agreeable association with individuals, loan bosses, representatives, clients etc. of the SACCOs, revealing basic reports to the partners of the SACCOs is crafted by the administration in light of the fact that appropriate revelation fabricates great connection among proprietors and administrators.

This dependent associations existing between the firm and various people from the overall population requires a more broad regard. It is thought that associations that are partner scholars will make higher wages since customers will pay more for administrations and things, cut down costs since suppliers and agents will be either prepared to recognize cut down charges or be more profitable, and less authoritative

oversight considering the way that the firm will be proactively working with government to address issues (Damodaran, 2007).

From this viewpoint, corporate administration discusses regularly continue with an obsession with the connection between corporate administrators and investors, which surmises that there is just one right answer. In fact, investors find it difficult and are hesitant to practice every one of the obligations of proprietorship in openly held companies, though different partners, particularly representatives, may often too effectively practice their privileges and duties related as proprietors. This is a convincing case for allowing workers some type of proprietorship.

2.2.4 Theory of Internal Controls

The free from any danger activity of an organization depends vigorously on how successful its inward controls are. The objectives and goals of an association being accomplished, meeting of long haul targets and the upkeep of trustworthy monetary and administrative reportage are generally dependent upon an arrangement of solid inward controls. Keeping up such frameworks of internal controls empowers associations work in consistence with rules and guidelines and approaches, just as methodology and rules set down inside. This lessens the danger of unanticipated misfortunes harms to hierarchical character (Barnabas, 2011). The significance of this hypothesis to the topic under study is that arrangements of internal controls, systems and rules should be plainly characterized and adhered to SACCOs. This theory demonstrates that there ought to be transparency and directing policies and controls to stay away from abuse of the money which may prompt poor monetary status of the SACCO.

2.2.5 Growth of the Firm Theory

The primary proponent of this theory was Edith Penrose. Penrose (1995) gave dependable ideas overseeing the firm's growth and development and the effectiveness at which a monetary endeavor develops at offered rate to get beneficial. The firm makes an incentive by coordinating with assets and gainful prospects. Especially, Penrose (1995) postulated that they exist causal collaborations between the outside and inward conditions which respect openings for broadening. This hypothesis gives a causal connection between assets identified with the market and firm level productivity. The decisions that produce beneficial development straightforwardly impact monetary qualities. SACCOs with great asset gift pull in the best managerial gathering henceforth accomplish more improved performance than their companions.

2.3 Empirical Literature Review

There has been a rise in publications on corporate governance and financial performance of organizations and in most cases the value of the firm is predicted by good corporate governance in the long run. In the case of the current study, proper corporate governance has the tendency of protecting SACCOs from vulnerability to future monetary forces. Therefore good corporate governance must always aim of enhancing financial performance of an organization by addressing the external forces related to such performance issues. Considered independent variables are corporate financial reporting on financial performance, transparency and disclosure on financial performance, internal control system and monitoring activities on financial performance.

2.3.1 Corporate Financial Reporting and Financial Performance

According Wild, Shaw and Chiappetta (2016), financial reporting entails the dissemination of data related to the financials of a firm to various users of accounting information to make an investment decision, obtaining credit facilities and other financial resolutions at the time they require the information. These reports form the pillar for budgetary exercises of an organization that are formal and extensive purposively for assembling the organization. The budgetary reports include accounting report, benefit and misfortune proclamation, exclamation of value changes and income which is alluded to as explanation of income exercise.

Muinde (2013) in his study on establishing the correlation between financial reporting and budgetary execution of Small and Medium Enterprises (SMEs) in Kenya, he revealed that there is a concrete positive link between money related revealing, budgetary examination, monetary administration and bookkeeping and budgetary performance of SMEs. However, the study only covered SMEs and was delimited to monetary announcing practices and administration, money-related investigation practices, budgetary administration practices and administration bookkeeping practices. The current study sought to fill this gap by extending a similar study to SACCOs specifically in Kiambu County with respect to a different time frame.

A study by Rashid, Sungwacha and Matete (2016) sought to establish the influence of financial reporting practices on organization financial performance in manufacturing companies in Bungoma and Kakamega Counties. The study mainly focused on cash

reporting, budgetary reporting, inventory reporting and cost reporting and how they influenced financial performance of manufacturing companies. Findings revealed that financial performance growth of the organizations were affected by financial staff competence skills and knowledge of accountability, managerial strategies, taxation and new initiations in products and service. However, their study focused on manufacturing industries and failed to establish a correlation between the factors and financial performance. The current study sought to fill this gap extending a similar operation to SACCOs that was conversely based on correlation between financial reporting practices and financial performance.

Kipkorir (2018) conducted a study on financial Reporting Practices and Financial Performance of SACCOs in Uasin Gishu County guided by stakeholder and agency theory. Kipkorir used census method selecting a sample of 68 respondents from 34 SACCOs and regression analysis in analyzing data based on the effect of such dynamics of financial reporting as disclosure of financials, comprehensiveness and audience considerations on financial performance. The findings showed that there was a significant relationship between disclosure of financials and finance performance ($p=.000$), there was a significant relationship between comprehensiveness and financial performance ($p=.000$) and there was also a significant relationship between audience consideration and financial performance ($p=.000$). However, Kipkorir's study did not cover all aspects of financial reporting in relation to financial performance of SACCOs and neither did it give an in-depth analysis of each practice. The current study therefore sought to fill this gap by exploring the annual financial reports for SACCOs in Kiambu with respect reports from

chairperson of the board, Chief Executive Officers (CEOs), mission statement, corporate governance auditor, director among other reports from other board members. The current study also focused on the financial records including income statement, balance sheet, statement of retained earnings, cash flow and accounting policies.

2.3.2 Transparency and Disclosure and Financial Performance

Disclosure includes data given in fiscal summaries and notes, the board investigation and conversation, future standpoint and some other supplemental data like corporate social obligation, ecological preservation, representative data, client data and related social data (Khlif and Souissi, 2010). Disclosure, regardless of whether mandatory or voluntary, monetary or social, gives a channel to improving business sector discipline in the monetary area. Then again, monetary disclosure alludes to the arrangement of an association's revelations identifying with its performance, position, changes in execution and going with notes to the yearly report (Quayes & Hasan, 2014).

Quayes and Hasan (2014) researched the connection between financial performance and financial disclosure of Micro-Finance Institutions (MFIs). The examination tracked down that better performing MFIs are related with improved monetary exposure. Past investigations have likewise settled huge determinants of revelation like benefit (Lan, Wang & Zhang, 2013), corporate administration and kind of evaluator (Khlif & Souissi, 2010). However, their study focused on MFIs and lacked correlation. Thus the current study sought to fill this gap by extending a similar study to SACCOs specifically in Kiambu County with respect to a different time frame.

Edogbanya and Kamardin (2015) conducted a study on organization reporting transparency and firm execution in 62 non-monetary organizations out of 136 organizations recorded in Nigeria somewhere in the range of 2010 and 2013; the discoveries showed straightforwardness of board and straightforwardness in financials have positive connection with Tobin's Q of the organizations. The study presumed that the presence of transparency and disclosure of material data is significant in firm performance. However, their study only covered non-financial companies and thus the current study sought to fill this gap by extending a similar study to SACCOs specifically in Kiambu County with respect to a different time frame.

Mutua (2016) researched the determinants of the degree of disclosure by deposit taking SACCOs in Kenya. The examination utilized content analysis of reviewed yearly reports to build up the level of disclosure by 202 store taking SACCOs in Kenya over the time frame 2008-2013. Correlation and multivariate fixed effects panel regression approaches were utilized to test six theories. The findings revealed that the level of disclosure by SACCOs is significantly and positively influenced by total asset value, governance score and the ratio of non-performing to gross loans at the 0.05 level of significance. The discoveries uncovered that SACCOs inspected by the public authority evaluator had lower revelation levels. Since the investigation depended widely on divulgences given by SACCOs in the evaluated yearly reports, an assessment of exposures in a bigger number of cooperatives in Kiambu is justified. The current study was therefore necessary to establish whether the determinants of disclosure would differ if a weighted disclosure index was used to determine the level of disclosure.

2.3.3 Internal Control System and Financial Performance

Corporate governance involves the cycles and constructions set up for control and course of an organization just as the executives of issues among managers, shareholders, board members and different partners while securing their privileges and promoting transparency (Sarbah & Xiao, 2015)). Mjahid, Sukoharson and Nuzula (2014) conceptualized corporate governance as rules and methods which assists organizations with running moral business tasks while thinking about interests of their partners. At the end of the day, corporate administration is a system formed to control and direct an association dependent on standards of good administration; decency, responsibility, straightforwardness, autonomy and duty (Naimah & Hamidah, 2017). Hence, organizations with sound corporate administration keep up complex frameworks of balanced governance (Minnow and Monks, 2011). The part of good corporate practices is guaranteeing board individuals and board panels are independent of the executives accordingly making moves that are of wellbeing to investors (Micklethwait & Dimond, 2017).

Amaka (2012) led an investigation on the effect of internal control framework on the monetary administration of an association a contextual analysis of the Nigeria packaging organization public limited company, Enugu. Essential information was gotten through surveys and optional information through reading material, diaries, magazines and notices. The target population comprised of 500 staff which was comprised of bookkeepers, chiefs, outside examiners and supervisors and different partners set up. The examination set up that monetary administration of any association can't manage without

inside control as obvious and reasonable introduction of fiscal summary may never be conceivable if the board and senior administration are not dedicated to giving a very much arranged interior control framework. However, the study failed to explore the dynamics of corporate governance practice of internal control and financial performance which the current study sought to cover with respect to internal audit functions particularly among SACCOs in Kiambu County, Kenya.

Gerrit and Mohammad (2010), in their study with respect to the size and help of the Internal Audit work discovered proof on the side of the observing part of the Internal Audit Function. The study explicitly, settled that administration proprietorship is decidedly identified with the overall size of the Internal Audit Function. It is likewise obvious that administration with higher offer possession is roused to put resources into bigger Internal Audit Function for better observing of income and for motioning to the governing body that, in spite of their high stake in profit, they are persuaded that suitable utilization of assets must be evaluated consistently. However, it is clear that the study tends to focus on facets of controls that relate to performance reporting, organization structure, behavior and external auditors' work with little focus on financial performance. Therefore, this ignored area formed the basis for the study.

Olumbe (2012) did an investigation on the connection between internal controls and corporate governance in business banks in Kenya. The investigation reviewed every 45 business banks in Kenya. The investigation set up that the majority of the banks had fused the different boundaries which are utilized for measuring inside controls and

corporate administration. This was demonstrated by the methods which were acquired enquiring on something very similar and this showed that the respondents concurred that their banks had introduced great corporate administration with a solid arrangement of inward controls and that there is a connection between inside control and administration.

Mwachiro (2013) researched the internal controls in activity at Kenya Revenue Authority with the end goal of setting up whether such interior controls have created any significant outcomes in expanded gathered income. The investigation utilized control climate, hazard evaluation, control exercises, information and correspondence and observing segments of inner controls as the factors. The investigation was directed utilizing elucidating contextual analysis utilizing causal/logical examination plan. The information was dissected utilizing both factual and account techniques while connection was utilized as a method of surveying the impact of interior controls and income assortment. The findings revealed that the five components of the control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work. The study established that weak internal controls and especially poor ethical values in the organization have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue.

Muio (2012) researched on the effect of internal control frameworks on the monetary execution of private hospitals in Kenya. The examination was secured on checking, control exercises, hazard appraisal, data and correspondence, control climate as the factors addressing inward control frameworks. A distinct exploration configuration was

received while the objective populace comprised of the relative multitude of private clinics certify by National Hospital Insurance Fund (NHIF) working inside the County of Nairobi. Linear regression analysis was utilized to discover the connection between observing, control exercises, hazard appraisal, data and correspondence, control climate and monetary execution of private emergency clinics in Kenya The findings of the study indicate that all the five components that are monitoring, control activities, risk assessment, information and communication and control environment must be present for an internal control system to be considered effective. The findings also indicated that Monitoring had the highest influence on the financial performance of private hospitals in Kenya followed by control environment, information and communication, risk assessment and control activities respectively.

Magara (2013) sought to find out the effect of internal controls on the financial performance of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. The independent variables for the study included; control environment, risk assessment, control activities and monitoring mechanisms while the dependent variable was financial performance. The findings of this study conducted on 122 deposit taking SACCOs in Kenya relied on both primary and secondary data which was obtained from the annual reports of the SACCOs. A multiple regression model was adopted to check the form of relationship between the dependent and the independent variables. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms

contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance.

Ondieki (2013) directed an investigation on impacts of internal audit on monetary execution of business banks. The independent factors for the investigation included; control climate, hazard evaluation, control exercises and checking instruments while the needy variable was financial performance. The findings of the examination were that inside controls can have highlights incorporated into them to guarantee that deceitful truncations are hailed or made troublesome, if certainly feasible, to execute. Internal control reviews give affirmation that controls are working, yet they don't really recognize misrepresentation or debasement. The targets of inner controls review identify with the board's arrangements, techniques, and methodology used to meet the association's mission, objectives, and goals.

Kipkosgei (2019) aimed at establishing the effect of internal control system on financial performance of Savings and Credit Cooperative Societies in Kenya. The specific objectives of the study were to establish the effect of control environment and risk assessment on financial performance of Savings and Credit Cooperative Societies in Tharaka Nithi County. The study employed a non-probabilistic purposive sampling technique to come up with a sample of 69 members of staff. The study used both primary and secondary data. The study used secondary data for four years (2013-2016). Multiple

regression analysis was used to determine the relationship between dependent and independent variables. A t-test and F-ratio were applied to test hypothesis and overall significance of the regression model at 5% significance level. Findings of the study indicated that control environment and risk assessment had a positive and significant effect on financial performance of Savings and Credit Cooperative Societies. This implies that internal control system is a major determinant of financial performance of Savings and Credit Cooperative Societies as proposed in the theory. However, the study was delimited to control environment and risk assessment as the main perimeters for internal control. The current study therefore focused on inclusion of other parameters of internal controls specifically for Deposit Taking SACCOs in Kiambu County, Kenya.

2.3.4 Financial Performance

Financial performance is a subjective measure in monetary terms of entity's arrangements results, tasks and exercises evaluated for a while. Various analysts utilize various measures while considering and exploring on firm performance in particular bookkeeping based measures and market-based measures. Bookkeeping based execution estimates present the administration activities result (Jain & Narang, 2009). Therefore, bookkeeping based execution measures are liked over market-based measures, particularly in examinations including corporate administration practices and execution of the firm (Mashayekhi & Bazazb, 2008).

For the reasons for this study, bookkeeping based measure utilized as benchmark of financial performance for SACCOs was Return on Asset (ROA). The ROA can be

decayed as Net Income/complete resources. Benefits on resources weighs both working and company's presentation monetarily. It checks whether the administration can procure a profit from assets. Firms with high proficiency in utilization of their resources record better yields. A firm demonstrating a positive presentation through ROA shows positive accomplishment of its earlier plans performing profoundly (Nuryanah & Islam, 2011). Higher ROA implies that the firm fruitful in drawing in assets in light of a legitimate concern for financial backers. Likewise, high ROA portrays accomplishment of association in using its resources for gains of financial backers (Ibrahim & Abdul Samad, 2011).

In measuring monetary execution, ratios are utilized. Without proportions, fiscal summaries would be to a great extent uninformative to everything except the extremely gifted. With proportion, fiscal summaries can be deciphered and helpfully applied to fulfill the requirements of the reader (Sangster & Wood, 2010). A proportion can be utilized as a measuring stick for assessing the monetary position and execution of a worry, in light of the fact that the supreme bookkeeping information can't give significant arrangement and understanding. A proportion is the connection between two bookkeeping things communicated numerically (Jain & Narang, 2009).

There are various articulations of ratios. The significant ones include: productivity; liquidity; equipping and liquidity. Past research has shown that corporate administration in Sacco's in Kenya has not been successfully managed and administered. Stress that great corporate administration researches in the Sacco's is basic if the agreeable

development is to adequately assume a critical part in the general advancement in Kenya. Sacco's in Kenya have been expanding to in excess of 2,000 as at 2010. A portion of these SACCO's have been researching corporate administration yet some do no training it completely.

2.4 Summary of Literature Review and Research Gaps

This chapter presents theoretical and empirical literature review. The theoretical reviews have focused on speculations identifying with corporate administration. The speculations have communicated different perspectives identifying with the relationship of corporate administration and the exhibition of association. The agency theory communicates that managers will pursue their own interests instead of those of shareholders. Stewardship theory shows that supervisors are sensible individuals who can seek after activities that can profit the associations and the owners. Empirical studies have imparted affirmation of some association between corporate administration practices and execution of associations. From different writing audit, great corporate administration researches on monetary execution isn't steady and change with the organizations and measurements of corporate administration received. Created economies have profoundly drawn in on corporate administration research. These economies have distinctive vital methodology and Corporate Governance frameworks from that of Kenya. Locally not a lot of studies have been finished identifying with the SACCO sector. Numerous researchers have focused in additional on the financial area and other assistance ventures, different areas like Sacco area which is as yet inclined to corporate administration issues have been overlooked notwithstanding the way that all areas are huge parts in Kenya's economy.

Development of SACCOs in Kiambu regarding their resource bases, credits and stores have been powerful in recent years. This study consequently sought to overcome this issue and study a sample of Deposit-Taking SACCOs (DTS) in Kiambu County. Table 2.1 provides a summary of the literature that was reviewed and the research gaps identified.

Table 2.1: Summary of Research Gaps

Authors	Focus of the Study	Findings	Research Gaps
Mugenyi (2010)	Financial records board's committee and Strategy towards SACCO performance. Board of Director Education and Firm Performance: A Dynamic Approach	Financial record keeping enhances the strategy and performance of SACCOs.	Establishing the correlation of the dynamics of corporate governance practice of financial reporting and financial performance
Muinde (2013)	Correlation between financial reporting and budgetary execution of Small and Medium Enterprises (SMEs) in Kenya	There is a concrete positive link between money related revealing, budgetary examination, monetary administration and bookkeeping and budgetary performance of SMEs	Extending to other organizations i.e. SACCOs in a different setting and time
Rashid, Sungwacha & Matete (2016)	Influence of financial reporting practices on organization financial performance in manufacturing companies in Bungoma and Kakamega Counties.	Financial performance growth of the organizations were affected by financial staff competence skills and knowledge of accountability, managerial strategies, taxation and new initiations in products and	Extending a similar operation to SACCOs that was conversely based on correlation between financial reporting practices and financial performance.

		service.	
Kipkorir (2018)	Financial Reporting Practices and Financial Performance of SACCOs in Uasin Gishu County	Disclosure of financials, comprehensiveness and audience consideration correlated to financial performance.	Extending to SACCOs in a different setting and time with respect to annual reports and accounting documents.
Quayes & Hasan (2014)	Relationship between Financial performance and financial disclosure of MFIs	Improved financial disclosure determined financial performance of MFIs	Extending a similar study to SACCOs specifically in Kiambu County with respect to a different time frame.
Edogbanya & Kamardin (2015)	Company reporting transparent and firm performance	Transparency in financials have positive association with Tobin's Q of the companies	Extending a similar study to SACCOs specifically in Kiambu County with respect to a different time frame.
Mutua (2016)	Determinants of disclosure by DTS in Kenya	Level of disclosure by SACCOs positively correlated to financial performance of SACCOs in terms of total asset value	Inclusion of other parameters of financial performance of an organization
Amaka (2012)	Impact of internal control system on the financial management of an organization: A case of Nigeria Bottling Company	Financial management is the pillar for financial performance of organization	Extending a similar study to other organizations and correlation between internal control and financial performance.
Gerrit & Mohammad (2010)	Size and facilitation of the internal audit function on management performance	Management ownership positively related to the relative size of internal audit function	Putting more focus on financial performance of an organization
Magara (2013)	Effect of internal controls on the financial performance of Deposit Taking SACCOs in Kenya	Control environment, risk assessment, control activities and monitoring mechanisms	Inclusion of other parameters of internal controls in an organization

		positively influence financial performance of SACCOs	
Kipkosgei	Effect of internal control system on financial performance of SACCOs in Kenya	Control environment and risk assessment positively linked with financial performance of SACCOs	Inclusion of other parameters of internal controls specifically for Deposit Taking SACCOs

2.6 Conceptual Framework

Independent variables

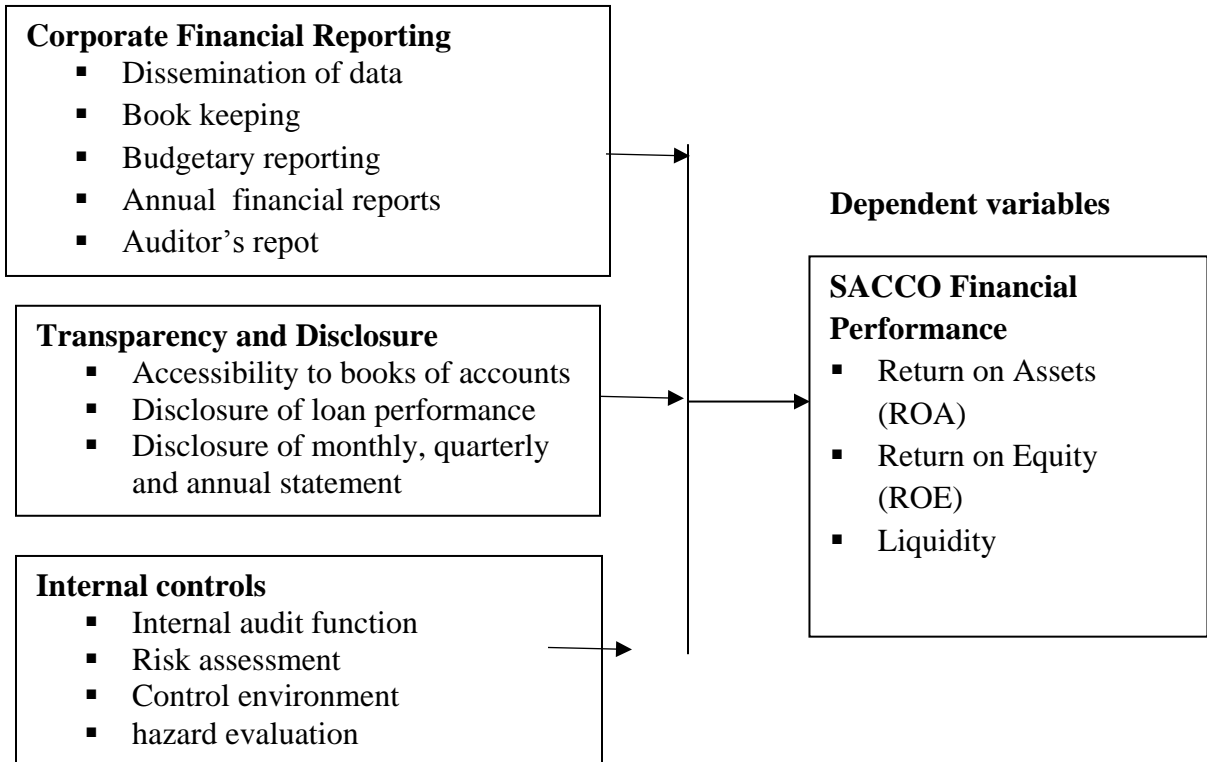


Figure 2.1: Conceptual framework on the financial performance of SACCOs

Source: Researcher, 2021

The corporate governance principles of financial reporting, transparency and disclosure, internal controls were the independent variables. The financial reporting was measured by dissemination of data book keeping, budgetary reporting, annual financial reports, auditor's report, Transparency and disclosure was measured based on factors like Accessibility to books of accounts, disclosure of loan performance, and disclosure of monthly, quarterly and annual statement. The internal controls was measured by looking at the internal audit function, Risk assessment, Control environment and hazard evaluation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter delivers material on the kind of study design applied for the study, population and sampling, data collection and data analysis.

3.2 Research Design

The study adopted descriptive survey design in examining corporate governance and financial performance of licensed deposit-taking SACCOs in Kiambu County, Kenya. According to Kothari (2011) descriptive survey design is a clear method is ideal because it engages the researcher to assess diverse other cloud settings in the situations and allow the researcher to gather data from people without manipulating the information as it enables reporting events as the way they are. This strategy was chosen in light of the fact that the examination is keen on building up a top to bottom comprehension of how corporate administration affect financial performance of licensed deposit-taking SACCOs.

The descriptive study was utilized to set up the relationship between factors at a given point in time without endeavoring to change their conduct or conditions (Kothari, 2011). This technique is favored in light of the fact that it takes into account the judicious examination of the exploration discoveries. Clear review endeavors to portray or characterize a subject frequently by making a profile of a gathering of issues, individuals or occasions through the assortment of information and organization of the frequencies on inquiring about factors or their cooperation as demonstrated.

3.3 Target Population and Sampling of the Study

The target population of this study was on all the licensed deposit- taking SACCOs that are operating in Kiambu County, estimated to number 14 as at December 2019. The study considered the entire population of the 14 SACCOs. The respondents were executive officers (CEOs), senior managers and other senior officers of the SACCOs. This is because they were conversant with the management of their respective SACCOs.

3.5 Data collection instruments

The study used questionnaires to collect primary data from executive officers, senior managers, employees and members of the SACCO. The questionnaires were in 5 likert-scale format. Secondary data was collected from the fourteen (14) audited financial statements at SASRA offices for the years 2015-2019.

3.6 Piloting of Data Collection Instruments

The study carried out a pilot study on a group of 5 people from the sample of the staff working in the SACCOs to determine the reliability of the research instrument. The pilot study was to permit the pre-testing of the examination instrument. The clearness of the instrument to the respondents were vital in order to improve the instrument's validity and reliability. The point was to address any irregularities emerging from the instruments, which guaranteed what instruments were planned to measure. The information was tried for reliability to build up issues, for example, information sources, strategies for information assortment, the hour of the assortment and the degree of precision.

3.6.1 Reliability of Data Collection Instrument

Reliability refers to the level to which the measuring instruments provide consistent results (Cooper and Schindler, 2003). In order to test the reliability of the instrument used in this study, the test-retest method was used by administering the questionnaire for a chosen group of people twice within an interval of two weeks. The test of research questions should yield a coefficient close to one for the instrument to be considered a reliable tool. According to Mugenda and Mugenda (2013), reliability of 0.7 and above is recommended for research purposes to denote research and instrument as reliable.

3.6.2 Validity Tests

Validity alludes to how much an investigation precisely reflects or surveys the particular idea that the analyst is endeavoring to gauge. It is how much outcomes got from the examination of information really speak to the marvel under investigation. It is the precision and significance of inductions which depend on the exploration results. It has to do with how precisely the information acquired in the investigation speaks to the factors of the examination. In the event that such information is a genuine impression of the factors, at that point, the deductions dependent on such information was precise and significant. Validity is to a great extent dictated by the nearness or nonappearance of efficient mistakes in the information, for example, utilizing a flawed scale to gauge. In this study, the researcher conducted both content and construct validity by doing a pilot test and after examination of the information, the analyst had the option to build up whether the inquiries in the survey gauges the proposed data and furthermore test whether the outcomes were illustrative of the populace. Reliability was tested using the

10 questionnaires which were piloted and not included in the final study sample. This avoided response bias in case they filled the same questionnaire twice. Eight questionnaires were coded and input into Statistical Package for Social Sciences (SPSS) for running the Cronbach reliability test.

3.7 Data Collection

The study collected primary data for the purpose of studying the effect between corporate governance and financial performance of licensed deposit- taking SACCOs in Kiambu County, Kenya. Primary data was collected using a questionnaire (appendix A) which was dropped in the SACCOs offices; SACCO officials, CEOs, senior managers, senior officers, members of the SACCO and employees completed the questionnaires and later the researcher collected them. The questionnaires were in Likert-scale format, filling in gaps and writing YES or NO to measure the financial performance, secondary data was collected from the fourteen audited financial statements of SACCOs at SASRA offices. Secondary data was collected from published annual reports of the considered DT-SACCOS and submissions to SASRA.

3.8 Data Analysis

The data collected from the questionnaires was first edited for accuracy, consistency, completeness and arranged to simplify coding. Data analysis was done with the aid of Statistical Package for Social Science (SPSS Version 23.0) program. Statistical Package for Social Science (SPSS) software was employed to generate frequencies, descriptive and inferential statistics which were used to derive generalizations and conclusions with respect to population of the study. Descriptive statistics used included percentage, means and standard deviations while the inferential statistics include regression analysis. A

multiple regression model was adopted to check the form of relationship between the dependent and the independent variables. This model was adopted, since it is used when one is interested in predicting a continuous dependent variable from a number of independent variables. The analyzed data was presented using tables. Multiple linear regression models were used to measure the relationship between the independent variables and the dependent variable.

3.9 Analytical Model

The study employed linear regression model to establish how corporate governance practices and financial performance of DT-SACCOs of Kiambu County relate. This was conducted through regressing factors such as financial reporting, transparency and disclosure and internal control practices. Corporate governance practices and financial performance relationship was modeled based on the following linear regression model:

3.9.1 Basic Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots \dots \dots \text{Equation 3.1}$$

Where,

Y= financial performance as predicted by Return On Assets (ROA) expressed as

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

β_0 = intercept or constant and defines the value of return on asset without inclusion of predictor variables

β_1 = Regression coefficient for corporate financial reporting

β_2 = Regression coefficient for transparency and disclosure

β_2 =Regression coefficient for Internal control

X_1 = Corporate financial reporting

X_2 = transparency and disclosure

X_3 = Internal control

e= Error term

Table 3.1: Operationalization and Measurement of Variables

Variable	Variable type	Operationalization	Measurement
Performance	Dependent	Return on Assets (ROA)	Net Income/Average Total Assets
Financial reporting	Independent	Preparation of accounting documents	Likert scale
Transparency and disclosure	Independent	Timely communication Disclosure of finance records	Likert scale
Internal control	Independent	Commitment & competence Information processing	Likert scale

3.9.2 Model with Moderating Variable

$$ROA_i = \alpha + \beta_1 FR_i + \beta_2 TD_i + \beta_3 IC_i + \beta_4 PGI_i + \epsilon_i \dots \dots \dots \text{Equation 3.2}$$

Y= financial performance as predicted by Return On Assets (ROA) expressed as

ROA=Net Income/Total Assets

FR= financial reporting

TD= transparency and disclosure

IC= Internal control

PG=ICPAK Prudential Guidelines

e= Error term

The model above demonstrates a moderated relationship between dependent and independent variables. The study employed the coefficient of prediction expressed by the R² of the regression results generated by SPSS. Further, the study evaluated the statistical significant of the models by utilizing the F-test statistics from the ANOVA model. Finally, the resulting regression coefficients were used in estimating the coefficients of each determinant variables and their influence on the dependent variable.

3.10 Ethical Considerations

Ethical consideration in research presents the researcher with the guidelines to ensure that research is conducted in the best interest of the respondents. Informed consent as one of the ethical requirement demands that respondents be given a choice to participate or not to participate in the research after being given full information concerning the risks and benefits of their participation. In this study, the respondents were given freedom to choose whether to participate or not to participate in the study. The researcher also obtained recommendation letter from Kenyatta University and sought permission to conduct research from National Commission for Science, Technology and Innovation (NACOSTI) to legitimize the research activity. The researcher explained the objectives of the study to the respondents to ensure that they all had the information about the purpose of the research. After seeking their consent, the respondents were requested to provide

honest answers to all questions availed to them and were assured that the information will be used for academic purposes and that it will be handled with a lot of privacy and confidentiality.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, presentation and interpretation. The data analysis of the study is based on descriptive analysis. The main objective of this research study was to investigate the relationship between corporate governance practices and financial performance of licensed Deposit-Taking SACCOs in Kiambu County, Kenya. The presentation of descriptive data was in form of figures and tables while regression, ANOVA, correlation and statistical significance were used to make inferences.

4.2 Demographic Information

4.2.1 Response Rate

The response rate was determined on the basis of the proportion of the questionnaires returned and questionnaires distributed to the respondents by the researcher as shown in Figure 4.1

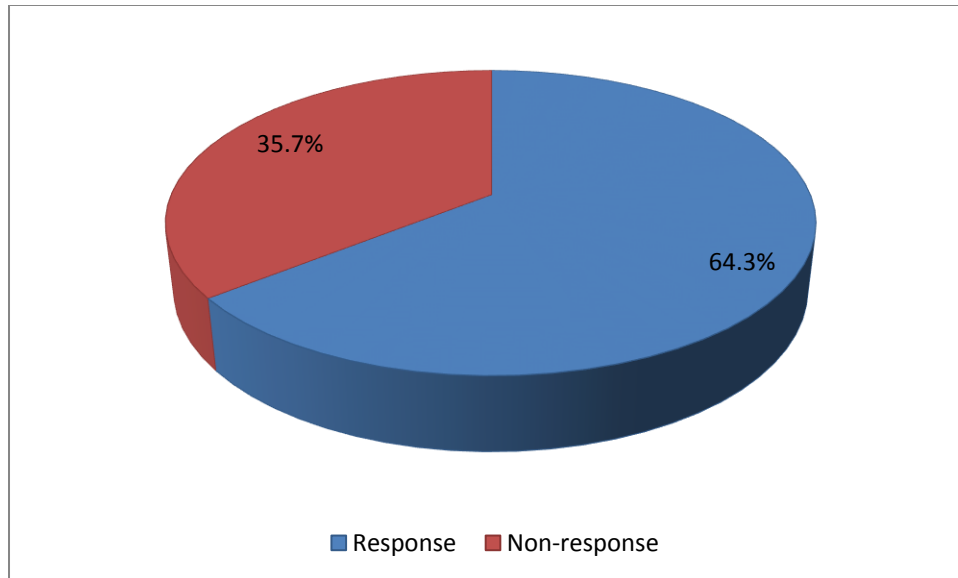


Figure 4.1 Analysis of Response Rate

Source: Field Data (2020)

The results in Figure 4.1 shows that out of 14 targeted deposit-taking SACCOs only 9 completed the questionnaire and returned it. This translates to a response rate of 64.3% which was considered appropriate and acceptable representative for data analysis, conclusions and formulating recommendations. According to Wainaina, Ole Sophia and Cherono (2016), a response rate of 50% is acceptable for analysis, response rate of over half is good while over 70% is is excellent.

4.2.2 Duration of SACCO Existence

The respondents were requested to indicate how long has the SACCO been in operations in Kenya. The findings were presented in Figure 4.2.

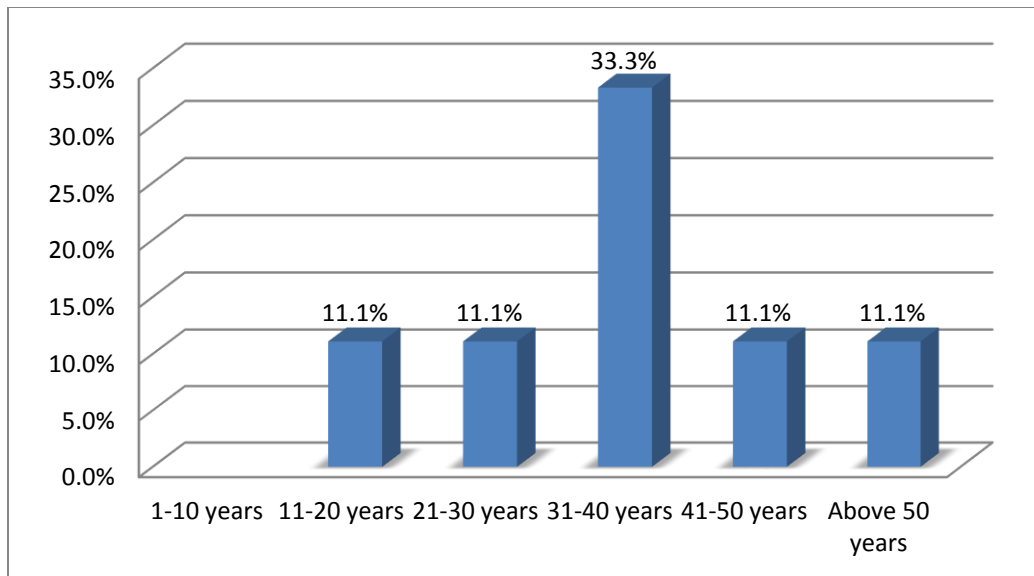


Figure 4.2 Analysis of Duration of SACCO Existence

Source: Field Data (2020)

The findings in figure 4.2 indicates that most of the SACCOs have been in operations for above 10 years with a representation of 77.7% while those have been in operations for less than 10 years with 22.2%. This indicates that deposit-taking SACCOs in Kiambu County have good foundation which positively impact on members' social welfare.

4.2.3 Job Position

The respondents were inquired to specify their job position in the SACCO. Figure 4.3 shows the study findings.

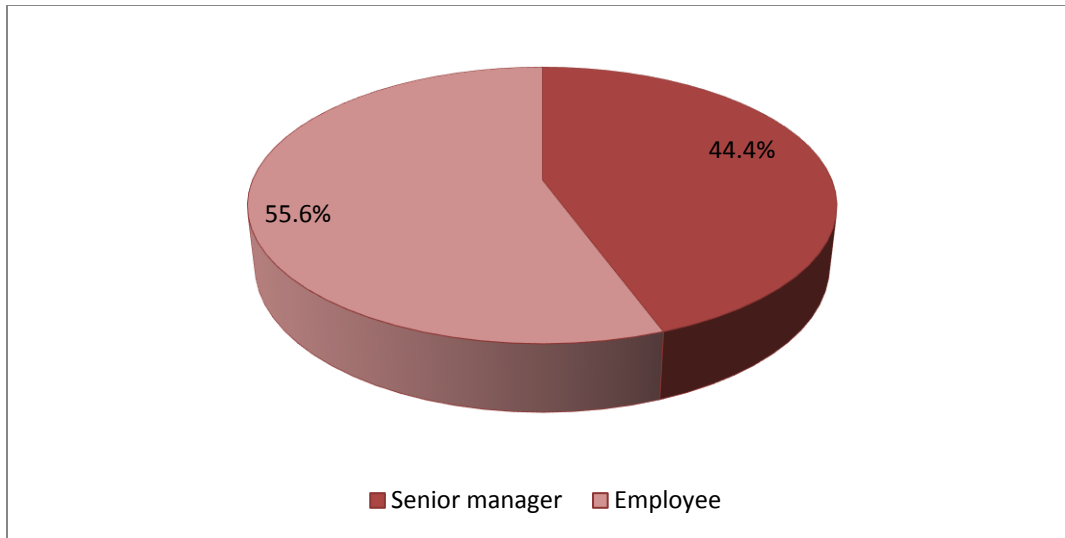


Figure 4.3 Analysis of Job Position

Source: Field Data (2020)

The study findings in figure 4.3 revealed that majority of the respondents were employee represented by 55.6% while senior manager were represented by 44.4%. These findings imply that all the respondents had requisite knowledge on corporate governance and financial performance of deposit-taking SACCOs hence understanding the information sought by this research.

4.2.4 Respondents' Working Experience

The respondents were asked to indicate the number of years they had worked in the SACCO. The results are illustrated in Figure 4.4.

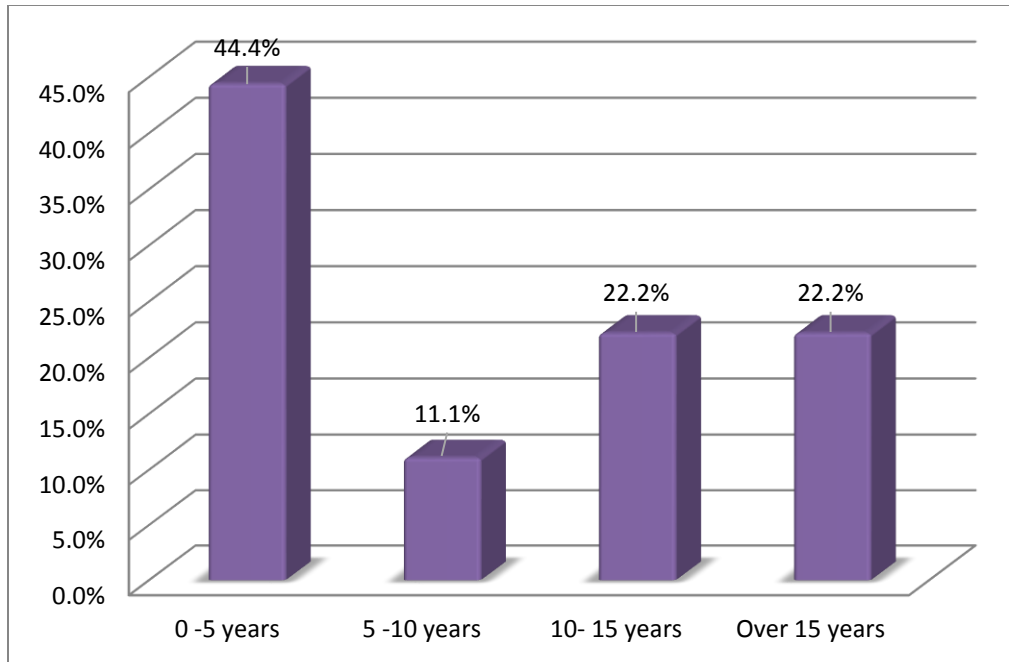


Figure 4.4 Analysis of Work Experience of Respondents

Source: Field Data (2020)

The results in figure 4.4 shows that 44.4% had worked with SACCO for a period over 0-5 years, 11.1% between 5 and 10 years, 22.2% between 10 and 15 years which tie with those worked over 15 years. The findings affirm that the staffs had the necessary experience to give the information that was of interest to the researcher. Moreover, work related experiences are important in developing motivation for organizational performance.

4.3 Financial Reporting and Financial Performance

The first objective of the study sought determine the effect of corporate financial reporting on financial performance of Licensed Deposit-Taking SACCOs in Kiambu

County, Kenya. To achieve this, the study determine which annual reports are availed to the annual general meeting each year using a questionnaire.

4.3.1 Descriptive Statistics

This study used mean, standard deviation and coefficient of variation to present the summary measures of the sample that was observed. Analysis of descriptive statistics was conducted on the basis of the data collected on the variables that were the target of this study. The basic feature of the observed sample formed the basis for quantitative data analysis for this study. The findings were presented in Table 4.1

Table 4.1: SACCOs Financial Annual Reports

Annual reports	Frequency	Percentage (%)
Chairman’s report	9	22.0
CEO’s report	3	7.3
Mission statement report	3	7.3
Auditors’ report on corporate governance	8	19.5
Corporate governance statement	5	12.2
Statement of directors’ responsibilities	6	14.6
Invitation to the company AGM	7	17.1
Total	41	100

Source: Field Data (2020)

The findings in Table 4.1 revealed that 22% of the respondents noted that chairman’s report was availed during annual general meeting, 19.5% auditors’ report on corporate governance, 17.1% invitation to the company AGM, 14.6% statement of directors’ responsibilities and 12.2% corporate governance statement. Additionally, 7.3% noted that mission statement report was availed which tie with CEO’s report. The audit committee has full oversight on company external audit function. The annual reports enhance the

company to determine profitability. The findings concur with the findings of Puni (2015) which revealed that audit report provide relevant information regarding the financial health of the organization. Ojeka, Iyoha and Obigbemi (2014) noted that there is positive relationship between effective audit committee and corporate performance.

Moreover, the study sought to determine which annual company reports are available at annual general meeting and include financial report statement. The findings are illustrated in Table 4.2

Table 4.2: SACCOs Annual Report Including Financial Report Statement

Annual Company Reports	Frequency	Percentage (%)
Auditor’s report on financial statements	9	16.7
Income statement	9	16.7
Balance sheet	8	14.8
Statement of retained earnings	8	14.8
Cash flow statement	8	14.8
Notes to the financial statements	6	11.1
Accounting policies	6	11.1
Total	54	100

Source: Field Data (2020)

Table 4.2 revealed that auditor’s report on financial statements and income statement are availed at annual general meeting of every deposit-taking SACCOs. This is followed by balance sheet, statement of retained earnings and cash flow statement. Moreover, notes to the financial statements and accounting policies were also presented during annual general meeting (AGM). The annual company reports show the performance trends of the company. The report will enhance effectiveness of the board members hence bettering

financial performance of the organization. The findings agreed with the findings of Wangui (2019) noted that annual company reports presentation show the performance trend of company which help in maximization of organization wealth. Further, SACCO Annual Supervisory report (2018) postulates that accurate financial reporting will enhance good corporate governance, financial stability and confidence from the SACCO's stakeholders.

4.3.2 Correlation Coefficients

The researcher carried out correlation analysis to establish the relationship between financial reporting and performance of SACCOs. Findings are presented in Table 4.3.

Table 4.3: Correlation between Financial Report and Financial Performance

		Auditor's report	Income statement	Balance sheet	Statement of retained earnings	Cash flow statement	SACCO performance
Auditor's report	Pearson correlation	1					
	Sig. (2-tailed)						
	N	54					
Income statement	Pearson correlation	.567**	1				
	Sig. (2-tailed)	.000					
	N	54	54				
Balance sheet	Pearson correlation	.179	.345	1			
	Sig. (2-tailed)	.112	.013				
	N	54	54	54			
Statement	Pearson	.162	.562	.074*	1		

t of retained earnings	correlation						
	Sig. (2-tailed)						
	N	54	54	54	54		
Cash flow statement	Pearson correlation	.128	.308**	.208	.376	1	
	Sig. (2-tailed)	.158	.487	.007	.147		
	N	54	54	54	54	54	
SACCO financial performance	Pearson correlation	.759**	.162*	.562*	.074*	.145*	1
	Sig. (2-tailed)	.656	.254	.526	.456	.000	
	N	54	54	54	54	54	54

**Correlation is significant at the 0.01 level (2-tailed)

*Correlation is significant at the 0.05 level (2-tailed)

Findings in Table 4.3 showed results of subsets of financial reporting against financial performance as follows: income statement ($r=0.162$), balance sheet ($r=.562$), statement of retained earnings ($r=.074$) and cash flow statement ($r=0.145$) have positive and statistically significant relationship with SACCO performance at $p<0.01$. Further, auditor's report ($r=0.759$) has a positive and significant relationship with SACCOs' performance but $p<0.05$.

4.3.3 Regression Model

The researcher conducted a regression analysis to establish how financial reporting practices influenced financial performance of SACCOs. The results are indicated in Table 4.4.

Table 4.4: Model Summary of Financial Reporting and SACCO performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.798	0.702	0.689	0.1300

a. Predictor: (Constant), Corporate financial reporting,

b. Dependent Variable: Financial Performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

Source: Field Data (2020)

The findings in Table 4.5 shows that coefficient of correlation was 0.702, an indication that the financial reporting significantly influenced financial performance of deposit-taking SACCOs. Coefficient of adjusted determination was 0.689 which translates to 68.9%. This shows that variations in financial performance was explained by the financial reporting practice. The residual of 13.0% could be explained by other factors beyond the scope of the current study.

4.3.4 ANOVA

An ANOVA was conducted at 5% level of significant level. A comparison between calculated F and critical F was conducted. The results are indicated in Table 4.5.

Table 4.5: ANOVA

Model	Sum Squares	df	Mean Squares	F	Sig
Regression	26.345	2	26.345	142.26	0.000 ^b
Residual	15.462	51	1.347		
Total	41.801	53			

a. Predictors: (Constant), Corporate financial reporting

b. Dependent Variable: Financial Performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

Source: Field Data (2020)

On statistical significance, Table 4.5 shows that $F(2, 53)=142.26$, p-value is $0.000<005$ thus an implication that the model is a good fit and hence significant in explaining financial report practice on financial performance of deposit taking SACCOs in Kiambu County. The interpretation of p-value was conducted at 5% level of significance.

4.4.5 Regression Coefficients

Also, regression coefficient was carried out to determine the effects of corporate financial reporting practice on the financial performance of deposit-taking SACCOs. The findings were presented in Table 4.6.

Table 4.6: Regression Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.458	0.225		4.327	.003
Corporate Financial Reporting	0.587	0.0162	1.253	2.321	.002

Dependent variable: SACCO performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

The findings in Table 4.6 revealed that corporate financial reporting practices held at constant zero would amount to financial performance of deposit-taking SACCOs considered to be at 0.458. The model further illustrates how the dependent variable would change with change of individual independent variables. In this case, holding other independent variable constant, a unit increase in corporate financial reporting would result to an increase in financial performance as measured by return on assets by a factor of 0.587. The findings agree with those of Hartarska (2009) who found that there is positive relationship between corporate financial reporting and financial performance of

organization. Additionally, the results are inconsistent with the findings of (Ndungu, 2016) which revealed that there is positive relationship between corporate governance and deposit-taking SACCOs.

Further, the findings agree with those of Rashid et al. (2016) which showed that financial performance growth of the organizations were affected by financial staff competence skills and knowledge of accountability, managerial strategies, taxation and new initiations in products and service. These findings also corroborate with those of Kipkorir (2018) which indicated that there was a significant relationship between financial reporting aspects and finance performance at a significance level of 0.05 (Confidence Interval=95%).

4.5 Transparency and Disclosure

The second objective of the study sought to determine the effect of transparency and disclosure on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya. To achieve this, the study examined data collected on the indicators of transparency and disclosure.

4.5.1 Descriptive Statistics

This study used mean, standard deviation and coefficient of variation to present the summary measures of the sample that was observed. Analysis of descriptive statistics was conducted on the basis of the data collected on the variables that were the target of this study. The results were presented in Table 4.7.

Table 4.7: Descriptive Statistics for Transparency and Disclosure

Statements	N	Min	Max	Mean	Std Dev	CoV
Monthly, quarterly and annual financial statements showing current compared to last year period actual performance	9	1.00	5.00	4.89	.33	0.16
Delinquent loan list , growth in loans, loans losses, recoveries and provisions are well disclosed	9	1.00	5.00	4.67	.50	0.18
A comprehensive statement of income comparing budget and actuals is prepared	9	1.00	5.00	4.56	.53	0.19
Sources and distribution on profile of savings and deposits is disclosed	9	1.00	5.00	4.67	.71	0.12
All insider dealings and non- performing insiders loans are disclosed	9	1.00	5.00	4.44	.73	0.13
Reports on the violation of SACCO Act plus other applicable law are prepared and remedial actions taken to comply	9	1.00	5.00	4.00	.99	0.14
Big risk exposures, investment portfolio , any regulatory reports ,and internal reports which are relevant to the SACCO operations are declared	9	1.00	5.00	4.22	.66	0.13
A Statement showing capital structure and adequacy is prepared	9	1.00	5.00	4.33	1.11	0.14
Directors are required to declare their interests in entities doing business with the organization	9	1.00	5.00	3.78	1.72	0.17
The books of accounts are prepared in the organization	9	1.00	5.00	4.67	.50	0.18
The organization employees external auditors to audit its books	9	1.00	5.00	4.56	.73	0.15
The books are easily accessible to the intended users within the organization	9	1.00	5.00	4.33	.71	0.12
Disclosure levels meet regulatory requirements.	9	1.00	5.00	4.56	.73	0.15
Average scores				4.80	.77	0.15

Source: Field Data (2020)

Table 4.7 findings of descriptive analysis on responses to statement regarding the measures of transparency and disclosure revealed that the aggregate mean and standard deviation scores were 4.80 and 0.77 respectively. The diverse employee responses were

close to the mean response as per a computation of a 15% level of variability. In addition, a range between 3.78 and 4.89 was computed as the mean values of the individual items. Likewise, a range between 12% and 19 % was computed as a consistent representation of the coefficient for individual indicators responses. A sample mean with a narrow variability proved that it had stable and reliable characteristics as a population mean estimator and therefore used for making inferences. Moreover, the reported variability of responses confirms that the activities adopted for transparency and disclosure are practiced and are important for performance of the deposit-taking SACCOs. The findings concur with the findings of Njuguna (2009); Edogbanya and Kamardin (2015) which revealed that presence of transparency and disclosure of material information is important in firm performance.

Also, accountability and disclosure of financial information form crucial elements of corporate governance. They are basic of corporate governance quality. The study results agreed with the findings of Sinan (2008) which revealed that openness is essential to corporate administration. As per Kent and Zunker (2013) transparency and disclosure positively impact cooperation of organization which eventually influence overall financial performance of the firm. Disclosure policy is a predictor for the interrelation between corporate governance and firm performance (Khlif & Souissi, 2010).

4.5.2 Correlation Coefficients

The researcher carried out correlation analysis to establish the relationship between financial report and performance of SACCOs. Findings are presented in Table 4.8.

Table 4.8: Correlation between Transparency and Disclosure and Financial Performance

		Disclosure of monthly, quarterly and annual statements	Disclosure of loan performance	Preparation of actual budgets	Disclosure of savings and deposits profile	Disclosure of books of accounts	SACCO performance
Disclosure of monthly, quarterly and annual statements	Pearson correlation	1					
	Sig. (2-tailed)						
	N	54					
Disclosure of loan performance	Pearson correlation	.561*	1				
	Sig. (2-tailed)	.000					
	N	54	54				
Preparation of actual budgets	Pearson correlation	.169	.345	1			
	Sig. (2-tailed)	.112	.013				
	N	54	54	54			
Disclosure of savings and deposits profile	Pearson correlation	.152	.562	.074*	1		
	Sig. (2-tailed)						
	N	54	54	54	54		
Disclosure of books of accounts	Pearson correlation	.129	.308*	.208	.376	1	
	Sig. (2-tailed)	.158	.487	.007	.147		
	N	54	54	54	54	54	
SACCO financial performance	Pearson correlation	.159	.162*	.262	.074*	.145*	1
	Sig. (2-tailed)	.656	.254	.526	.456	.000	
	N	54	54	54	54	54	54

**Correlation is significant at the 0.01 level (2-tailed)

*Correlation is significant at the 0.05 level (2-tailed)

Findings in Table 4.8 showed results of subsets of transparency and disclosure against financial performance as follows: disclosure of loan performance ($r=0.162$), disclosure of savings and deposits profile ($r=0.074$) and disclosure of books of accounts ($r=0.145$) have positive and statistically significant relationship with SACCO performance at $p<0.05$. Further findings indicate that disclosure of monthly, quarterly and annual statements ($r=0.159$) and Preparation of actual budgets ($r=0.262$) have a positive but insignificant relationship with SACCOs' performance at $p<0.05$.

4.5.3 Regression Model

The researcher conducted a regression analysis to establish how transparency and disclosure influenced financial performance of SACCOs. The results are indicated in Table 4.9.

Table 4.9: Model Summary of Financial Reporting and SACCO performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.898	0.872	0.748	0.124

a. Predictor: (Constant), Transparency and Disclosure

b. Dependent Variable: Financial Performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

Source: Field Data (2020)

Results of linear regression in Table 4.10 showed that R-square was 0.872 and adjusted R-Square=0.748 which imply that 74.8% change in deposit-taking SACCO performance is explained by the Transparency and Disclosure practice. This further explains that apart

from transparency and disclosure practice, the residual of 13.0% could be explained by other factors beyond the scope of the current study.

4.5.4 ANOVA

An ANOVA was conducted at 5% level of significant level. A comparison between calculated F and critical F was conducted. The results are indicated in Table 4.10.

Table 4.10: ANOVA

Model	Sum Squares	df	Mean Squares	F	Sig
Regression	25.345	1	26.345	112.21	0.001 ^b
Residual	15.462	52	1.347		
Total	40.801	53			

a. Predictors: (Constant), Transparency and disclosure
b. Dependent Variable: Financial Performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

Source: Field Data (2020)

On statistical significance, Table 4.10 shows that $F(1, 53)=112.21$, p-value is $0.001 < 0.05$ thus an implication that the model is a good fit and hence significant in explaining transparency and disclosure practice on financial performance of deposit taking SACCOs in Kiambu County. The interpretation of p-value was conducted at 5% level of significance.

4.4.5 Regression Coefficients

Also, regression coefficient was carried out to determine the effects of transparency and disclosure practice on the financial performance of deposit-taking SACCOs. The findings were presented in Table 4.11.

Table 4.11: Regression Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	.442	0.225		4.327	.003
Transparency and Disclosure	0.632	0.0241	1.124	2.212	.001

a. Dependent variable: SACOO performance

The findings in Table 4.11 revealed that corporate financial reporting practices held at constant zero would amount to financial performance of deposit-taking SACCOs considered to be at 0.442. The model further illustrates how the dependent variable would change with change of individual independent variables. In this case, holding other independent variable constant, a unit increase in transparency and disclosure practice would result to an increase in financial performance as measured by return on assets by a factor of 0.587. The findings agree with those of Hartarska (2009) who found that there is positive relationship between corporate financial reporting and financial performance of organization. Additionally, the results are inconsistent with the findings of (Ndungu, 2016) which revealed that there is positive relationship between corporate governance and deposit-taking SACCOs.

Further, the findings agree with those of Rashid et al. (2016) which showed that financial performance growth of the organizations were affected by financial staff competence skills and knowledge of accountability, managerial strategies, taxation and new initiations in products and service. These findings also corroborate with those of

Kipkorir (2018) which indicated that there was that there was a significant relationship between financial reporting aspects and finance performance at a significance level of 0.05 (Confidence Interval=95%).

Further, findings imply that a unit increases in transparency and disclosure would trigger an increase in increase in financial performance by a factor of 0.645. The findings agree with those of Edogbanya and Kamardin (2015) which indicated that transparency of board and disclosure in financials have positive connection with Tobin's Q of the organizations. This is also supported by Mutua's (2016) study on the determinants of the degree of disclosure by deposit taking SACCOs in Kenya which found out that the level of disclosure by SACCOs is significantly and positively influenced by total asset value, governance score and the ratio of non-performing to gross loans at the 0.05 level of significance.

Finally, findings imply that a unit increases in internal control would generate e an increase in increase in financial performance by a factor of 0.536. This finding agrees with that of Magara (2013) which revealed that each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. Similarly, Kipkosgei (2019) in his study which aimed at establishing the effect of internal control system on financial performance of Savings and Credit Cooperative Societies in Kenya indicated that control environment and risk assessment had a positive and significant effect on financial performance of Savings and Credit Cooperative Societies.

4.2.3 Internal Control

The third objective of the study sought to determine the effect of internal control system on financial performance of licensed deposit taking SACCOs of Kiambu County, Kenya. To accomplish this, the researcher conducted the analysis of the data collected on the indicators of internal control and presented the findings in Table 4.12.

Table 4.12: Descriptive Statistics for Internal Control

Statements	n	Min	Max	Mean	Std Dev	CoV
The SACCO has established an internal audit function for reviewing and reporting adequacy and the financial matters	9	1.00	5.00	4.78	.44	0.14
The Internal auditor reports to the Audit committee of the board	9	1.00	5.00	4.89	.33	0.16
The audited financial statements are submitted for approval to the authority within three months after the end of the financial year	9	1.00	5.00	4.66	.50	0.17
The audit committee reviews the financial conditions of the SACCO	9	1.00	5.00	4.55	.73	0.15
SACCO have set adequate internal controls to achieve SACCO financial reporting objectives	9	1.00	5.00	4.67	.50	0.16
The SACCO keep the accounting records and financial reports are accurately prepared to reflect its operations and results	9	1.00	5.00	4.67	.50	0.16
The SACCO management reports from the internal and external auditors are reviewed concerning deviations and weaknesses in accounting and operational controls	9	1.00	5.00	4.44	.73	0.15
SACCOs have mechanisms and rules for performing supervision against internal control	9	1.00	5.00	4.33	.50	0.13

weaknesses

The board receive appropriate and current information from SACCO's accounting, information and communication systems to make informal and timely decisions	9	1.00	5.00	4.44	.73	0.14
The SACCOS internal auditors report their findings directly to the board or to aboard committee	9	1.00	5.00	4.67	.50	0.16
Board decisions made collectively and not controlled by a dominant individual or group	9	1.00	5.00	4.33	1.32	0.17
There is monitoring system in the SACCO to determine compliance with internal controls and are instances of non-compliance reported to the board	9	1.00	5.00	4.33	.71	0.14
The BOD ensured implementation of an effective system of internal control	9	1.00	5.00	4.22	.83	0.18
Averages				4.54	0.64	0.15

Source: Field Data (2020)

The findings from Table 4.13 revealed the results of descriptive analysis for indicators of internal control demonstrate that the aggregate mean and standard deviation scores were 4.54 and 0.64 respectively. The calculated sample mean translates to an aggregate of five-point Likert scale adopted for the purpose of this study. The aggregate variability of the responses is also moderate as revealed by the coefficient of variation of 15%. This is further confirmed by the narrow range of mean response and coefficient of variation across the responses to the different measures of internal control. The narrow variability demonstrates that the aggregate sample mean is a reliable and hence useful for making conclusion and recommendation. Furthermore, the findings indicate that indicators for measuring internal control are practiced and are vital for financial performance deposit-

taking SACCOs in Kiambu County. Internal controls are created by organization to produce direct link between organization systems and performance. Internal control ensures effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations to which the company is subject. These findings collaborate with the findings of Mawanda (2008), states that institution which have enforcement of proper internal control systems will always lead to improved financial performance.

4.3.2 Correlation Coefficients

The researcher carried out correlation analysis to establish the relationship between financial report and performance of SACCOs. Findings are presented in Table 4.13.

Table 4.13: Correlation between Financial Report and Financial Performance

		SACCOs establish internal audit function	Audit committee reviews the financial conditions	Keeping accurate financial records	Implementation of internal control system by the BOD	Cash flow statement	SACCO performance
SACCOs establish internal audit function	Pearson correlation	1					
	Sig. (2-tailed)						
	N	54					
Audit committee reviews the financial conditions	Pearson correlation	.567**	1				
	Sig. (2-tailed)	.000					
	N	45	45				

Keeping accurate financial records	Pearson correlation	.179	.345	1			
	Sig. (2-tailed)	.112	.013				
	N	45	45	45			
Implementation of internal control system by the BOD	Pearson correlation	.162	.562	.074*	1		
	Sig. (2-tailed)						
	N	45	45	45	45		
Supervision against internal control weaknesses by the SACCO	Pearson correlation	.128	.308**	.208	.376	1	
	Sig. (2-tailed)	.158	.487	.007	.147		
	N	45	45	45	45	45	
SACCO financial performance	Pearson correlation	.459*	.161*	.562*	.113*	.176*	1
	Sig. (2-tailed)	.356	.254	.526	.456	.325	
	N	45	45	45	45	45	45

**Correlation is significant at the 0.01 level (2-tailed)

*Correlation is significant at the 0.05 level (2-tailed)

Findings in Table 4.13 showed results of subsets of internal control against financial performance as follows: SACCOs establish internal audit function ($r=0.459$), Audit committee reviews the financial conditions ($r=0.161$), Keeping accurate financial records ($r=0.425$), Implementation of internal control system by the BOD ($r=0.456$), supervision against internal control weaknesses by the SACCO ($r=0.325$) has a positive and significant relationship with SACCOs' performance $p<0.05$.

4.3.3 Regression Model

The researcher conducted a regression analysis to establish how internal control influenced financial performance of SACCOs. The results are indicated in Table 4.14.

Table 4.14: Model Summary of Financial Reporting and SACCO performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.798	0.713	0.697	0.160

a. Predictor: (Constant), Corporate financial reporting,

b. Dependent Variable: Financial Performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

Source: Field Data (2020)

Results of linear regression in Table 4.14 showed that R-square was 0.713 (adjusted R-Square=0.697) which imply that 71.3% change in DT-SACCO performance is explained by the internal control practice. This further explains that apart from internal control practice, there exist other factors with an influence on DT-SACCO performance.

4.3.4 ANOVA

An ANOVA was conducted at 5% level of significant level. A comparison between calculated F and critical F was conducted. The results are indicated in Table 4.15.

Table 4.15: ANOVA

Model	Sum Squares	df	Mean Squares	F	Sig
Regression	26.345	2	26.345	132.27	0.001 ^b
Residual	15.462	7	1.347		
Total	41.801	9			

a. Predictors: (Constant), Corporate financial reporting

b. Dependent Variable: Financial Performance

Source: Field Data (2020)

On statistical significance, Table 4.15 shows that $F(2, 9)=132.27$, p-value is $0.000<005$ thus an implication that the model is a good fit and hence significant in explaining financial report practice on financial performance of deposit-taking SACCOs in Kiambu County. The interpretation of p-value was conducted at 5% level of significance.

4.4.5 Regression Coefficients

Also, regression coefficient was carried out to determine the effects of corporate governance on the financial performance of deposit-taking SACCOs. The findings were presented in Table 4.16.

Table 4.16: Regression Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.458	0.225		4.327	.003
Internal Control System	0.645	0.0231	1.322	2.452	.002

Dependent variable: SACCO performance (Return on Assets (ROA), Return on Equity (ROE) and Liquidity)

The findings in Table 4.16 revealed that corporate financial reporting practices held at constant zero would amount to financial performance of deposit-taking SACCOs considered to be at 0.458. The model further illustrates how the dependent variable would change with change of individual independent variables. In this case, holding other independent variable constant, a unit increase in corporate financial reporting would result to an increase in financial performance as measured by return on assets by a factor of 0.587. The findings agree with those of Hartarska (2009) who found that there is

positive relationship between corporate financial reporting and financial performance of organization. Additionally, the results are inconsistent with the findings of (Ndungu, 2016) which revealed that there is positive relationship between corporate governance and deposit-taking SACCOs.

Further, the findings agree with those of Rashid et al. (2016) which showed that financial performance growth of the organizations were affected by financial staff competence skills and knowledge of accountability, managerial strategies, taxation and new initiations in products and service. These findings also corroborate with those of Kipkorir (2018) which indicated that there was a significant relationship between financial reporting aspects and finance performance at a significance level of 0.05 (Confidence Interval=95%).

Further, findings imply that a unit increases in transparency and disclosure would trigger an increase in increase in financial performance by a factor of 0.645. The findings agree with those of Edogbanya and Kamardin (2015) which indicated that transparency of board and disclosure in financials have positive connection with Tobin's Q of the organizations. This is also supported by Mutua's (2016) study on the determinants of the degree of disclosure by deposit taking SACCOs in Kenya which found out that the level of disclosure by SACCOs is significantly and positively influenced by total asset value, governance score and the ratio of non-performing to gross loans at the 0.05 level of significance.

Finally, findings imply that a unit increase in internal control would generate an increase in increase in financial performance by a factor of 0.536. This finding agrees with that of Magara (2013) which revealed that each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. Similarly, Kipkosgei (2019) in his study which aimed at establishing the effect of internal control system on financial performance of Savings and Credit Cooperative Societies in Kenya indicated that control environment and risk assessment had a positive and significant effect on financial performance of Savings and Credit Cooperative Societies.

Moreover, the findings show that effective internal control system support profitability and growth of an organization by protecting the general assets and resources thereby averting cases of loss. The results concur with the findings of Kamau (2014) which revealed that there is a positive relationship between internal control and financial performance of manufacturing firms in Kenya. The study recommends that both internal and external auditor should be constantly updated and well-grounded on international financial reporting standards and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues. Strong internal control system helps to prevent, minimize, transfer or eliminate risks, which may affect a profitable operation (Munteanu, Scarlat & Berechet, 2016). Toghil (2017) backs the same by emphasizing that SACCOs with sound corporate governance maintain complex systems of checks and balances.

4.5 Trend in Financial Performance

This section attempts to analyze the findings of the various measure of financial performance deposit-taking SACCOs in Kiambu County. They include; Return on Assets, Return on Equity and Liquidity.

Return on Assets

The descriptive statistics were utilized to calculate the means for return on assets (ROA) for each of the five years, and the findings are displayed in Table 4.17.

Table 4.17: Descriptive Statistics for ROA

Year	N	Mean	Standard deviation	Skewness
2015	9	0.0532	0.0145	0.121
2016	9	0.0661	0.0206	0.127
2017	9	0.0345	0.0112	0.172
2018	9	0.0421	0.0178	0.113
2019	9	0.0413	0.0163	0.132
Mean	9	0.0474	0.0161	0.133

Source: Field Data (2020)

The findings in Table 4.17 revealed that the return on assets ranged from a mean of 0.0345 to 0.0661. The average return on assets were .0532 (2015), .0661 (2016), .0345(2017), .0421 (2018) and .0413 (2019). ROA was highest in 2016. The findings show that return on assets affect the financial performance of deposit-taking SACCOs. The findings collaborate with the findings of Sum and Momba (2016) which revealed that there is positive relationship between Return on Assets and financial performance of SACCOs.

Return on Equity (ROE)

The research sought to determine the distribution of Return on Equity. The variable was measured by net income per shareholder's fund. The results were presented in Table 4.18.

Table 4.18: Descriptive Statistics for ROE

Year	N	Mean	Standard deviation	Skewness
2015	9	0.1214	0.0132	0.051
2016	9	0.1293	0.0106	0.014
2017	9	0.1247	0.0112	0.024
2018	9	0.1326	0.0133	0.032
2019	9	0.1219	0.0172	0.021
Mean	9	0.1260	0.0131	0.028

Source: Field Data (2020)

The results in Table 4.18 show that the return on equity ranged from a mean of 0.1214 to 0.1326. The return on equity were .1214 (2015), .1293(2016), .1247(2017), .1326 (2018) and .1219 (2019). ROE was highest in 2018. ROE had higher values than ROA on all the years under study. This indicates that a proportion of equity capital relative to asset was positive and significant. The findings concur with the findings of Onduku (2013) which revealed that SACCOs record positive financial performance in term of return to equity, liquidity and also generate revenue to pay dividends to shareholders.

Liquidity

Additionally, descriptive statistics were used to determine the means for liquidity for each of the five years. The liquidity, as measured by the ratio of current assets to current liabilities. The findings are presented in Table 4.19.

Table 4.19: Descriptive Statistics for Liquidity

Year	N	Mean	Standard deviation	Skewness
2015	9	0.336	0.134	0.032
2016	9	0.562	0.153	0.027
2017	9	0.474	0.204	0.028
2018	9	0.362	0.176	0.023
2019	9	0.491	0.234	0.045
Mean	9	0.445	0.180	0.031

Source: Field Data (2020)

Table 4.19 revealed that the mean liquidity ranged from 0.336 to 0.562. The liquidity were .336 (2015), .562 (2016), .474(2017), .362 (2018) and .491 (2019). Liquidity was highest in 2016 which was also the highest year of financial performance for the period under study. Liquidity has a greater impact on the SACCOs portfolios. The findings indicate that liquidity has positive impact on financial performance of the SACCOs. The findings concur with the results of Song'e (2015) which revealed that there is positive relationship liquidity

4.6 Chapter Summary

This chapter presented the findings of descriptive and inferential statistics analysis conducted on information provided by participants in the SACCO sector. The general information was presented in figures whilst descriptive statistics were presented in frequency tables with respect to mean and standard deviations. This was done as per the objectives of the study which covered financial reporting, transparency and disclosure and internal control and financial performance of DT-SACCOs. The next chapter will present the summary, discussion and recommendations on study enhancement and further studies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the major findings of the actual study, draw conclusions and finally recommendations and suggestions on areas of further study. The focus of the study was corporate governance practices and the financial performance of DT SACCOs in Kiambu County.

5.2 Summary

Findings have been summarized based on objectives of the study:

The first objective sought to determine the effect of corporate financial reporting on financial performance of Licensed Deposit-Taking SACCOs in Kiambu County, Kenya. The study findings revealed that chairman's report, auditor's report, corporate governance statement, statement of directors' responsibilities, balance sheet, cash flow statement, accounting policies among others annual reports were presented during Annual General Meeting in every year. However, not all financial reports were availed at the end of every financial year. Statistical analysis of the data gathered revealed that financial reporting has a statistically significant effect on financial performance of deposit-taking SACCOS.

The second objective of the study sought to determine the effect of transparency and disclosure on financial performance of licensed deposit taking SACCOs in Kiambu County, Kenya. The findings show that respondents agreed that measures of transparency

and disclosure influence the financial performance of deposit-taking SACCOs with aggregate mean and standard deviation score of 4.80 and 0.77 respectively. Transparency and disclosure was operationalized using measures such as delinquent loan list, comprehensive statement of income, profile of saving and deposit, report of violation of SACCO Act, book of accounts and capital structure. The study findings show that measures of transparency and disclosure were practiced in the deposit-taking SACCOs in Kiambu County.

The third objective of this study sought to determine the effect of internal control system on financial performance of licensed deposit taking SACCOs of Kiambu County, Kenya. The study findings revealed that respondents agreed with measures of internal control influence financial performance of deposit-taking SACCOs with aggregate mean and standard deviation of 4.54 and 0.64 respectively. Internal control measures involved internal audit function, internal auditor reports, accounting records, operational control, monitoring system, information and communication. The study findings show that measures of internal control were practiced in the deposit-taking SACCOs in Kiambu County.

5.3 Conclusion

The financial performance of organizational is the key theme and a fundamental concern for practitioners in modern organizations. This study concluded that financial reporting, transparency and disclosure; and internal control have a significant influence on the financial performance of the deposit-taking SACCOs in Kiambu County, Kenya. The results derived from regression model show that at 5% level of significance show that

there existed a relationship between corporate governance and financial performance of deposit-taking SACCOs. The regression coefficients indicated that there is positive relationship between corporate governance and deposit-taking SACCOs. This is indicated by a unit increase in corporate financial reporting, transparency and disclosure and internal control system would result to an increase in financial performance as measured by return on assets by a factor of 0.587, 0.632 and 0.645 respectively.

5.4 Recommendation

Based on the study findings, the study recommends that;

The study findings revealed that not all financial reports were availed at the end of every financial year. The financial reports should be available and updated throughout. This is important to the investors, employees and management itself when it comes to making of decision. It also shows the profitability trend of the organization.

The SACCOs should adhere to transparency and disclosure requirements set by Sacco Societies Regulatory Authority (SASRA). The access to financial statements by members and public at large is a key driver to the performance of SACCOs because it is a variable that is highly associated with good financial performance.

Internal control system should be improved and implemented diligently. This will help SACCO keep the accounting records and financial reports accurately. Moreover, it established a safeguard to accounting information and financial report statements. The audit committee should be put in place to ensure organization internal control systems are adequate and compliance with SARSA regulations.

Sacco Societies Regulatory Authority (SASRA) should reinforce existing laws on transparency and accountability and if need be sanction SACCOs that do not follow the guidelines set in regards to transparency and accountability.

5.5 Suggestions for Further Study

- i. The study was limited to corporate governance and financial performance of licensed deposit-taking SACCOS in Kiambu County, Kenya. However, a similar study should be conducted to other financial sectors like microfinance institutions and banks for the aim of making comparisons of the findings with those of the current study. Moreover, further research should be conducted to determine the effect of other factors that have not been conceptualized in this study particularly considering the empirical implication of the coefficient of determination described from the findings of model summary.
- ii. The study scope was very short. The study was limited to the period 2015 to 2020. Further research should focus on a wide span of more than 5-year period for more conclusive and reliable results.
- iii. The study was not exhaustive since there are other firm characteristics influencing financial performance of deposit taking SACCOs in Kenya. Further research should include other firm characteristics like capital adequacy, management efficiency and asset quality. This will make the research conclusive and more informative.

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APPENDICES

Appendix I: Introduction Letter

Dear Sir/Madam,

I am a Masters student of Business Administration in the School of Business at Kenyatta University, Kenya. My study project is on Corporate Governance and Financial Performance of Deposit-taking SACCOs in Kiambu County, Kenya. The purpose of this research is to establish the relationship between corporate governance and financial performance of the licensed deposit-taking SACCOs in Kiambu County, Kenya.

I invite your participation in this research by completing the attached questionnaire which will take approximately 10-15 minutes. Your cooperation in this regard is highly appreciated. The information collected will be treated with utmost confidence and therefore the confidentiality of your responses is assured.

Thank you for your cooperation.

Yours faithfully,

Charles Ngaroga Njuguna

Kenyatta University

Appendix II: Questionnaire

Section A: Background Information

A1 Name (Optional).....

A2 What is the name of your SACCO?

A3 for how long has this D=SACCO been in operations in

Kenya.....years

A4 What is your Job position?

- | | |
|------------------|--------------------------|
| Chairman | <input type="checkbox"/> |
| CEO | <input type="checkbox"/> |
| Director | <input type="checkbox"/> |
| Senior Manager | <input type="checkbox"/> |
| Employee | <input type="checkbox"/> |
| Member | <input type="checkbox"/> |
| Others (Specify) | <input type="checkbox"/> |

B. FINANCIAL REPORTING

1. Which of the following annual reports are availed to the Annual General Meeting after the end of the year before 30th April in each calendar year

- a) Chairman's report
- b) CEO's report
- c) Mission statement report
- d) Auditor's report on corporate governance
- e) Corporate governance statement
- f) Statement of directors' responsibilities
- g) Invitation to the company AGM

2. Which of the following annual company reports which should also include financial report statement are availed at the annual general meeting after the end of the year before 30th April in each calendar year

i) Auditor’s report on financial statements []

ii) Balance sheet []

iii) Statement of retained earnings []

iv) Income statement []

v) Cash flow statement []

vi) Notes to the financial statements []

vii) Accounting policies []

3. Which of the following methods of financial reporting is adopted by the SACCO

a) Information Communication and Technology (ICT) financial report []

b) Manual financial report []

c) Both ICT and Manual financial report methods are used []

Use a scale of 1 to 5 where 1 is Strongly disagree, 2 – Disagree, 3- Neutral, 4- Agree and 5– Strongly Agree in regards to the statement about SACCO and financial performance of SACCOs

C. TRANSPARENCY AND DISCLOSURE

	1	2	3	4	5
Monthly, quarterly and annual financial statements showing current compared to last year period actual performance					
Delinquent loan list , growth in loans, loans losses, recoveries and provisions are well disclosed					
A comprehensive statement of income comparing budget and actuals is prepared					

Sources and distribution on profile of savings and deposits is disclosed					
All insider dealings and non- performing insiders loans are disclosed					
Reports on the violation of SACCO Act plus other applicable law are prepared and remedial actions taken to comply					
Big risk exposures, investment portfolio , any regulatory reports ,and internal reports which are relevant to the SACCO operations are declared					
A Statement showing capital structure and adequacy is prepared					
Directors are required to declare their interests in entities doing business with the organization					
The books of accounts are prepared in the organization					
The organization employees external auditors to audit its books					
The books are easily accessible to the intended users within the organization					
Disclosure levels meet regulatory requirements.					

D) INTERNAL CONTROL

	1	2	3	4	5
The SACCO has established an internal audit function for reviewing and reporting adequacy and the financial matters					
The Internal auditor reports to the Audit committee of the board					
The audited financial statements are submitted for approval to the authority within three months after the end of the financial year					
The audit committee reviews the financial conditions of the SACCO					
SACCO have set adequate internal controls to achieve SACCO financial reporting objectives					

The SACCO keep the accounting records and financial reports are accurately prepared to reflect its operations and results					
The SACCO management reports from the internal and external auditors are reviewed concerning deviations and weaknesses in accounting and operational controls					
SACCOs have mechanisms and rules for performing supervision against internal control weaknesses					
The board receive appropriate and current information from					
The SACCO's accounting, information and communication systems to make informal and timely decisions					
The SACCOS internal auditors report their findings directly to the board or to aboard committee					
Board decisions made collectively and not controlled by a dominant individual or group					
There is monitoring system in the SACCO to determine compliance with internal controls and are instances of non-compliance reported to the board					
The BOD ensured implementation of an effective system of internal control					

THANK YOU!!

**Appendix III: List of Sacco Societies Licensed To Undertake Deposit-Taking
SACCO**

Business in Kiambu County, Kenya for the Financial Year Ending December 2018

1. ALL CHURCHES SACCO SOCIETY LTD
2. DIMKES SACCO SOCIETY LTD
3. FARIJI SACCO SOCIETY LTD
4. GITHUNGURI DAIRY AND COMMUNITY SACCO SOCIETY LTD
5. GOOD FAITH SACCO SOCIETY LTD
6. JACARANDA SACCO SOCIETY LTD
7. JOINAS SACCO SOCIETY LTD
8. KENYA CANNERS SACCO SOCIETY LTD
9. K-UNITY SACCO SOCIETY LTD
10. NRS SACCO SOCIETY LTD
11. TAI SACCO SOCIETY LTD
12. ORIENT SACCOR SOCIETY LTD
13. METROPOLITAN NATIONAL SACCO SOCIETY LTD
14. AZIMA SACCO SOCIETY LTD

Appendix IV: Approval Letter from Graduate School



KENYATTA UNIVERSITY GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

P.O. Box 43844, 00100

NAIROBI, KENYA

Tel. 020-8704150

Website: www.ku.ac.ke

Internal Memo

FROM: Dean, Graduate School

DATE: 11th August, 2020

TO: Mr. Charles Ngaroga Njuguna
C/o Department of Accounting &
Finance

REF: D53/CE/29120/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

=====
This is to inform you that Graduate School Board, at its meeting on 1st July, 2020, approved your Research Project Proposal for the MBA Degree entitled, “Corporate Governance and Financial Performance of Licensed Deposit-Taking Saccos in Kiambu County, Kenya.”

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and Progress Report Forms per semester. The forms are available at the University’s Website under Graduate School webpage downloads.

Thank you.

JULIA GITU

FOR: DEAN, GRADUATE SCHOOL

CC. Chairman, Department of Accounting & Finance

Supervisors:

1. Dr. Ambrose Jagongo
C/o Department of Accounting & Finance
Kenyatta University

Appendix V: Authorization Letter from Graduate School



KENYATTA UNIVERSITY GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 020-8704150

Our Ref: D53/CE/29120/2015

DATE: 11th August, 2020

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

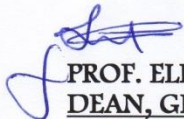
**RE: RESEARCH AUTHORIZATION FOR MR. CHARLES NGAROGA NJUGUNA
– REG. NO. D53/CE/29120/15**

I write to introduce Mr. Charles Ngaroga Njuguna who is a Postgraduate Student of this University. He is registered for MBA degree programme in the **Department of Accounting & Finance**.

Mr. Njuguna intends to conduct research for a MBA Project Proposal entitled, **“Corporate Governance and Financial Performance of Licensed Deposit-Taking Saccos in Kiambu County, Kenya.”**






Any assistance given will be highly appreciated.

Yours faithfully,


PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL

JG/oww

APPENDIXVI: PERMIT LETTER FROM NACOSTI

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 216864	Date of Issue: 26/August/2020
RESEARCH LICENSE	
	
This is to Certify that Mr.. CHARLES NGAROGA of Kenyatta University, has been licensed to conduct research in Kiambu on the topic: CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF LICENSED DEPOSIT-TAKING SACCO'S IN KIAMBU COUNTY, KENYA for the period ending : 26/August/2021.	
License No: NACOSTI/P/20/6279	
216864 Applicant Identification Number	 Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code 
NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.	