

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/341977042>

# Purakala Control Activities and financial Performance of SACCOs in Bushenyi-Ishaka Municipality: Evidence from SACCOs in Ishaka Division; Western Uganda

Article · June 2020

CITATION

1

READS

146

4 authors, including:



[Muniru Sewanyina](#)

Kampala International University (KIU)

4 PUBLICATIONS 3 CITATIONS

SEE PROFILE



[Labson Turyamushanga](#)

6 PUBLICATIONS 5 CITATIONS

SEE PROFILE



[Michael Manyange](#)

Kampala International University (KIU)

30 PUBLICATIONS 102 CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:



project of becoming a consultant in Finance and Accounting [View project](#)

**Control Activities and financial Performance of SACCOs in Bushenyi-Ishaka Municipality: Evidence from SACCOs in Ishaka Division; Western Uganda**

**Muniru Sewanyina<sup>1</sup>, Labson Turyamushanga<sup>2</sup> Michael Manyange<sup>3</sup> & Mary Baineamasanyu<sup>4</sup>**

sewanyina.muniru@kiu.ac.ug

<sup>1</sup>Assistant Lecturer, Faculty of business and Management; Kampala International University

<sup>2, 3&4</sup> Lecturers, Faculty of Business and Management; Kampala International University

**Abstract**

*This study was about internal control activities and financial performance of SACCOs in Bushenyi-Ishaka municipality; a case study of SACCOs in Ishaka division. The objective was to establish the relationship between control activities and financial performance of SACCOs in Ishaka division the study adopted descriptive cross sectional and correlational designs with both quantitative and qualitative approaches. A total population of 150 was involved which included employees, supervisory committee, loan committee and board members from which a sample of 93 respondents were selected using Slovene's formula. Out of 109 respondents, 90 respondents responded positively. Data was collected using questionnaire and interview guide and analyzed using descriptive statistics, chi-square for quantitative data and thematic analysis was used for analyzing qualitative data. The study findings established a significant relationship between control activities and financial performance of SACCOs. From the study findings, recommended that SACCOS in Bushenyi-Ishaka municipality should include Monitoring as part of internal control systems and increase on supervision for staff.*

**1. Introduction**

According to Kiaritha (2015), co operatives started in 1938 when men cooperated to kill big animals for their survival which could not be killed if any of them acted individually. Kiaritha (2015), further indicates that cooperatives which are in form of SACCOs first appeared in China. Worldwide, prominent cases of Enron and World.com in USA, Parmalat in Europe and Chou Anoyama in Asia have made internal control systems very relevant to most firms if they are to boost their financial performance.

In North America, cooperatives started in the form of preparing land for cultivation and in United States of America, the first SACCO was established in 1752 before their independence.

Today across the world, SACCOs have a significant share of the financial market and IMF estimated that over 15% of financial market is occupied by SACCOs (Kiaritha, 2015). Recent research indicates that SACCOs tend to be well organized than saving and credit firms owned by individual investors. IMF showed that the financial performance of SACCOs in developed countries like Germany, USA; and UK are higher and more stable than that of commercial banks.

In Sub Saharan Africa, by 2008 the savings of SACCOs had grown to almost 40% which is equivalent to the growth rate of recent years and the loans had reached 12% which is less than that of recent years. For example in 2007, the loans of SACCOs increased by 35.5% compared to 2006, they increased by 21.2% (WOCCU, 2014). This shows that in Sub Saharan Africa the loan performance of SACCO was increasing.

The performance of SACCOs in East Africa is influenced by innovativeness of the board in adopting the effective techniques. Ng'ondi (2013) asserts that many SACCOs in Kenya have adopted risk assessment practices as a way of managing their portfolios by integrating the component of risk identification, evaluation, analysis, monitoring are integrated in management process. Munene and makori (2013) note that profitability of SACCOs in Kenya is affected by political interference, investment in non earning assets and poor managerial competencies. The top management is mandated to make financial reports that are honest, reliable informative and accurate after a certain period of time usually at the end of every financial year (Kamau, 2014).

According to Kamau (2014), SACCOs in Tanzania are mostly concentrated in rural areas with about 60% of the members of those SACCOs are farmers while are in urban centers. SACCOs in Tanzania have become known as the most important financial institutions to most of low income earners and is shown by the number of customers they have in the country and the way how they are distributed.

The Cooperative movement in Uganda is traced back to 1908 when European famers established cooperatives for the production and marketing of their produce. During their growing stages, SACCOs used to operate on planned rather than market driven environment and They were controlled by the government before liberation in 1986 which was spear headed by World Bank (Mutua, & Murigi, (2019). .Latter in 2004 government

through registration reversed its role in supervision and surveillance of the affairs of SACCOs societies to safeguard the member fund and extension to entire economy. Savings and Credit Cooperative Societies (SACCOs) are now registered and regulated under the Cooperative Societies Act, Cap 490 of the law of Uganda as amended in 1997 (Njenga & Jagongo, 2019).

## **1.2 Problem Statement**

SACCOs are voluntary association where members pool their savings together and get loans from which they can use for different purposes. They play an important role in mobilizing financial resources for most development activities especially for local population. SACCOs are also cooperative societies aimed at encouraging members to save for the purpose of creating capital which can be lent to members at a friendly interest rates and conditions than other financial institutions (Kiaritha, Munyare, & Njenga, 2019)). The members are able to mobilize their own funds within themselves without depending on outside sources and lend to members at lower interest rates and better conditions and they are unique from other financial institutions in a way that they are the micro-finance institutions that allow the owners to use the services they offer (Ahurira, 2018).

SACCOs are able to operate in hard to reach areas and this makes them more desirable to customers than other financial institution (Olando, Mbewa & Jagongo, 2012).. However, indicated that frauds have increased in SACCOs and over 26% of the loans given to customers remained unrecovered by the SACCOs (Aduboffour, 2016). Over 65% of the SACCOs established are not able to celebrate their first birth day due to low profitability (Nalukenge, Nkundabanyanga & Ntayi, 2018). The researcher believes that practicing control activities could be the solution to the SACCOs' low profitability and it is this belief that inspired the researcher to undertake this study

## **1.3 Objective of the study**

To establish the relationship between control activities and financial performance of SACCOs in Ishaka Division

#### **1.4 Null Hypothesis**

There is no significant relationship between control activities and financial performance of SACCOs in Ishaka Division

### **2. Literature Review**

For internal control systems to operate effectively there should be some specific procedures that must be adopted by management. IAS came up with internal controls as a plan of organization, segregation of duties, and control of documents and safe guarding of assets competence of staff. Plan for the organization shows the organizational structure that indicates how the organization is divided into sections and departments with the aim of clarifying the authorities, duties and responsibilities at each level (Kamau, 2014). This enables employees to perform their duties very well without corroding with each other and they can be easily monitored.

Internal control is a changing process an organization must undertake and should involve all members of the organization (Rosman et.al. 2016). This means that it should not be separated from the routine operations of the organization but imbedded within those activities. In most organizations today including SACCOs, most control activities like supervision, multiple layers of authorization, cross checking and segregation of duties have been given less attention due to the cost associated with them and this has negatively affected their organizational financial performance.

In the real world, most control activities tend to be ignored by most financial institutions and this is due to the fact that those who are concerned lack the knowledge and experience which leads to under estimation of internal controls hence causing the financial performance to decline due to fraud (Surjandari & Martaningtyas, 2015). In most cases, many organizations tend to ignore most of the accounting internal control activities such as cross-checking, segregation of duties among others and rely more on the technological advancement which may lead to the occurrence of many misstatements in the financial reports. Kinney (2001) contend that auditing is a very important control activity that should be performed. The Chartered Institute of Public Finance and Accountancy indicates that firms should be able to draft budgets and periodic reports on their financial performance (Kaur& Lodhia, 2019).

external controls such as external audit are concerned majorly with enhancing the reliability of financial performance thereby increasing financial accountability among different stakeholders (Nabi, 2016). Magara (2013), in his study internal of control system and financial performance of SACCOs in Kenya, indicates that control and supervision positively affect the financial performance of SACCOs especially the return on assets. Similarly, Fanta (2013) also indicates that the internal control structures and external administration apparatuses greatly affect the financial performance of financial institutions, especially banks' return on assets and return on equity.

Kamau (2014), asserts that control activities entails policies, mechanisms and procedures that enable the management team to effectively execute their duties; and he further notes that well documented policies and procedures make it possible for management team to carry out control activities. Control activities like segregation of duties enable organizations to prevent the fraud and avoid errors that might be made by employees. Consequently, organization is able to institute measures to reduce fraud and errors there by boosting their financial performance. This indicates that it is important to put controls on the important documents like cheque books, receipt books to only be accessed by authorized personnel. To improve their financial performance, organizations are also required to put in place physical controls on physical assets like plant and machinery and cash. It that it is very important to educate, sensitize and train employees on how to go about the Internal Control Systems (ICS) as their effectiveness depends on the competences and dependability of how the employees and other stake holders use them (Origa & Finance, 2015). Maintaining the control activities help organizations to avoid risks that may affect the organization's ability to achieve its objectives.

Kamau (2014) contend that when control activities are in place, it becomes very difficult for employees to commit fraud since each employee checks on the work of another employee. However, although this works well for lower level managers, it does not work well for top managers. Ewa and Udoayang (2012), in their study of the impact of internal control design on the bank's ability to detect employee fraud established that having a strong internal control system in place prevents employee fraud where as a weak one creates more opportunities for them to commit fraud which in turn affects the financial performance of the organizations.

Therefore, internal controls should be built with features that make it difficult for fraudulent transactions to take place.

### **3. Methodology**

The study adopted a descriptive cross-sectional research design, using both qualitative and quantitative methods in a methodological triangulation framework. Qualitative method was used to enable the researcher in collection and analysis of qualitative data and quantitative method helped the researcher in collection and analysis of quantitative data to establish the relationship between internal control systems and financial performance of SACCOs in Bushenyi Ishaka Municipality. The study population was 150 people from five SACCOs in Ishaka division and it included the board of directors, supervisory committee, loan committee members and employees of those SACCOs and a sample size of 109 was taken from total population of 150 using Slovene's formula. Stratified sampling with simple random and purposive sampling was used to select respondents from different SACCOs. Descriptive statistics and inferential statistics were used to analyse data.

### **4. Results**

#### **4.1 Descriptive Statistics**

This measures the level of agreement and disagreement about the existence and working of control activities in SACCOs in Ishaka division. Questions were designed about control activities, and the responses of the respondents were measured on a five Likert scale were 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1 = strongly disagree. The researcher used mean and standard deviations to measure the level of agreement and disagreement as shown below.

**Table 4.1: Control activities carried out in SACCOs**

	Mean	SD

The SACCO has obvious separation of duties	4.01	0.744
Employees checks each other's work	3.91	0.781
There is proper supervision of work of employees by their superiors	2.01	0.780
Collective measures are taken to reduce on the weaknesses indentified in the system	4.01	0.774
Employees are subjected to training on how to use accounting system	4.01	0.797
Important information are secured from un authorized persons	2.01	0.893
Effective controls are in place to avoid un necessary expenditure	3.88	0.885
Budgets are reviewed to compare the actual and the budgeted expenditure	3.76	0.928
The assets of the SACCO are indentified and secured by the security system in place	4.04	0.743
The SACCO has a well developed accounts chart	3.93	0.859

*Source: Primary data, 2019*

From table 4.10 above, the results indicate that SACCOs in Ishaka division separate duties of their employees (Mean=4.01, SD=0.774), this implies that for each duty to performed, each task is done by a different person to avoid manipulation, employees are able to check on their fellows' work (Mean=3.91, SD=0.783); this shows that employees are part of the internal control system, collective measures are also taken to reduce on the weaknesses identified in the systems (Mean=4.01, SD=0.797) and employees are subjected to training on to use the accounting and loan trucking systems. The results also indicate that SACCOs in Ishaka division have put in place effective controls to reduce on unnecessary expenditures (Mean=3.88, SD=0.855). This enable them to incur less costs, budgets are also reviewed to compare actual and budgeted expenditure (Mean=3.76, SD=0.928), SACCOs' assets are also secured from un authorized users (Mean=4.04, SD=0.743) and they have also put in place a well developed accounts charts to ensure that accounts are not misplaced (Mean=3.93, SD=0.859). However, SACCOs in Ishaka division are not carrying out proper supervision of their employees (Mean=2.01, SD=0.780), this



could lead to misuse of resources and the important information were not properly secured from unauthorized persons (Mean =2.01, SD=0.893). The overall results (M=3.89, SD=0.781) indicate that SACCOs in Ishaka division were practicing control activities although some are not carried out properly or not at all and the most control activities carried out were separation of duties and identification of weaknesses in the systems and the worst were supervision of employees and securing important information

#### **4. 2 Bi-variant analysis (hypothesis testing)**

This involved establishing the relationship between control activities and financial performance of SACCOs in Ishaka division. The researcher did that by testing the set hypothesizes using Chi-square as a statistical tool of analysis due to the nature the data that was collected and the hypothesizes tests were stated as below.

$H_0$  = there is no significant relationship between risk assessment and financial performance of SACCOs in Ishaka division

$H_1$  = there is a significant relationship between risk assessment and financial performance of SACCOs in Ishaka division

**Table 4.2: Relationship between control activities and financial performance**

	Model fitting coefficient	Likelihood ratio tests		
	2log likelihood	Chi Square	df	Sig
Intercept	166.202	51.42	2	0.011
Final	114.78			

From table above, the results indicate that P-value ( $0.011 < \text{level of significance } (0.05)$ ). therefore the null hypothesis which states that there is no significant relationship between control activities and financial performance of SACCOs in Ishaka division was rejected and the alternative hypothesis accepted. This implies that there is a significant relationship between control

activities and financial performance of SACCOs in Ishaka division, thus for SACCOs to boost their financial performance, they have to carried out control activities.

## **5. Discussion Conclusions and Recommendations**

### **5.1 Discussion**

The study findings indicate that SACCOs in Bushenyi-Ishaka municipality were separating duties and each employee was able to check in each other's work (Mean=4.01). This is in agreement with Kamau (2014), who contends that when employees' duties are separated and each employee is able to check on each other's work, the level fraud and errors are reduced. Collective measures were also taken by SACCOs to reduce on the weaknesses identified in the systems (Mean=4.01) and employees were subjected to training to learn how to use the accounting and loan trucking systems (Mean=4.01). This was in agreement with Kenyon and Tilton (2006) who maintain that it is very important to educate sensitize and train employees on how to go about the internal control systems. Effective were also put in place to avoid unnecessary expenditure and budgets were reviewed to compare the actual and budgeted expenditure.

However, the study findings indicate that SACCOs in Bushenyi-Ishaka municipality were not carrying out proper supervision of their employees (Mean=2.01) and important information were not well secured from unauthorized persons (Mean=2.01). This implies that there was high chances fraud and manipulations due to poor supervision and custody of important information. This is in disagreement with Magara (2013), who indicates that supervision is very important and positively affects the financial performance of SACCOs.

The study findings also revealed a significant relationship between control activities and financial performance of SACCOs in Bushenyi-Ishaka Municipality (P-value (0.011) <sig value (0.05)). This implies that for SACCOs in Bushenyi-Ishaka municipality to financially perform better, they must carry out control activities. This is in agreement with Fanta (2013) and Doyle (2005), who maintain that control activities greatly the organizations to achieve their objectives.

Results from interviews indicated that employees were able to check on each other's work, collective measures were also taken to reduce on the weaknesses in the systems and employees

were trained on how to use the systems especially the accounting and loan trucking systems. One of the interviewee mentioned that *“the level of supervision was still low due to lack of enough manpower; he gave an example that when loan officers are in the field, it becomes difficult to supervise them”*

## **5.2. Conclusion**

From the study findings, it can be concluded that the most practiced control activities by SACCOs in Bushenyi-Ishaka municipality was separation of duties and the worst practiced was improper supervision of employees. This implies that SACCOs were not able to identify all mistakes made by the employees.

The study also concluded that there is a significant relationship between control activities and financial performance of SACCOs in Bushenyi-Ishaka municipality and control activities contribute 35.6% to the financial performance of SACCOs in Bushenyi-Ishaka municipality.

## **5.3. Recommendations**

There is a need to improve on the supervision of employees while performing their duties by management. This will enable them to identify the errors and other related problems in advance and devise means to prevent them from happening.

There is a need by the government of Uganda and other bodies concerned to support the SACCOs in Bushenyi-Ishaka municipality to acquire updated equipment that help them to safeguard their important information from unauthorized persons. This will help them to compete favorably and avoid frauds and manipulations.

The researcher also recommends that management should improve on their commitment about the working of the systems in place. This will help them to realize the benefits of having a well build accounting and financial systems.

## **References**

- Aduboffour, E. (2016). *An assessment of credit risk management among savings and loan institutions in Ghana: A case study of Sinapi Aba savings and loans* (Doctoral dissertation).

- Ahurira, E. (2018). *Savings and Credit Cooperatives (SACCOS) and Poverty Alleviation among Sacco Members in Jinja District* (Doctoral dissertation, Uganda Management Institute).
- Ewa, E. U., & Udoayang, J. O. (2012). The impact of internal control design on banks' ability to investigate staff fraud, and life style and fraud detection in Nigeria. *International Journal of Research in Economics & Social Sciences*, 2(2), 32-43.
- Kamau, C. W. (2014). Effects of Sacco services on investment by households in Kiambu County, Kenya.
- Kaur, A., & Lodhia, S. K. (2019). Sustainability accounting, accountability and reporting in the public sector. *Meditari Accountancy Research*.
- Kiaritha, H. W. (2015). *Determinants of the financial performance of savings and credit co-operatives in the banking sector in Kenya* (Doctoral dissertation).
- Kiaritha, H., Munyare, H., & Njenga, N. (2019). Does Competition from Commercial Banks affect the Financial Performance of Savings and Credit Co-operatives in the Banking Sector in Kenya?. *Africa Journal of Technical and Vocational Education and Training*, 4(1), 118-127.
- Magara, C. N. (2013). Effect of internal controls on financial performance of deposit taking savings and credit cooperative societies in Kenya. *A research project report submitted in partial fulfillment of the requirements for the award of Master of business administration degree, school of business, University of Nairobi*.
- Munene, E. C., & MAKORI, J. (2013). The challenges facing deposit-taking savings and credit cooperative societies' regulatory compliance in Kenya. A case of the Gusii region.
- Mutua, J. N., & Murigi, E. (2019). Corporate growth strategies on performance of SACCOs in Kitui County, Kenya. *International Academic Journal of Human Resource and Business Administration*, 3(7), 363-382.
- Nabi, G. Y. A. E. (2016). Corporate Governance as an Internal Control System and Its Impact on Financial Performance Empirical Study: Companies Listed at Palestine Exchange. *Corporate Governance as an Internal Control System and Its Impact on Financial Performance Empirical Study: Companies Listed at Palestine Exchange*.
- Nalukenge, I., Nkundabanyanga, S. K., & Ntayi, J. M. (2018). Corporate governance, ethics, internal controls and compliance with IFRS. *Journal of Financial Reporting and Accounting*.

- Ng'ondi, M. J. (2013). *The Contribution of SACCOs in improving social welfare in Iramba district: evidence from Nyasamaja and Ukombozi SACCOs* (Doctoral dissertation, Mzumbe University).
- Njenga, R., & Jagongo, A. (2019). Effect of financial management decisions on financial performance of selected non-deposit taking SACCOs in Kiambu County, Kenya: Theoretical Review. *International Academic Journal of Economics and Finance*, 3(3), 204-217.
- Olando, C. O., Mbewa, M. O., & Jagongo, A. (2012). Financial Practice as a Determinant of Growth of Savings and Credit Co-Operative Societies' Wealth (A Pointer to Overcoming Poverty Challenges in Kenya and the Region). *International journal of Business and social science*, 3(24).
- Origa, P. O., & FINANCE, I. (2015). Effect of internal controls on the financial performance of manufacturing firms in Kenya. *Unpublished Msc Project*, The University of Nairobi, Nairobi.
- Rosman, R. I., Shafie, N. A., Sanusi, Z. M., Johari, R. J., & Omar, N. (2016). The Effect of Internal Control Systems and Budgetary Participation on the Performance Effectiveness of Non-profit Organizations: Evidence from Malaysia. *International Journal of Economics and Management*, 10, 523-539.
- Surjandari, D. A., & Martaningtyas, I. (2015). An Empirical Study: The Effect of Performance Incentives, Internal Control System, Organizational Culture, on Fraud of Indonesia Government Officer. *Mediterranean Journal of Social Sciences*, 6(5 S5), 71.
- World Council of Credit Unions (WOCCU). (2014). 2014 Statistical Report.