

**EFFECT OF INTERNAL CONTROL SYSTEMS ON QUALITY OF
FINANCIAL REPORTS OF NON-DEPOSIT TAKING SACCOS IN
THARAKA NITHI COUNTY, KENYA**

KAVWELE ALFRED MUENDO

**A Thesis Submitted to the Graduate School in Partial Fulfillment of the
Requirements for the Award of Master of Business Administration Degree
of**

Chuka University

CHUKA UNIVERSITY
OCTOBER 2024
DECLARATION AND RECOMMENDATIONS


Declaration

This thesis is my original work and has not been presented for award of a diploma or conferment of a degree in any institution.

Signature:  Date: 24/10/2024
Kavwele Alfred Muendo
CM11/45606/19

Recommendation

This thesis has been examined, passed and submitted with our approval as University supervisors.

Signature:  Date: 24/10/2024
Prof. Isaac Micheni Nkari
Chuka University

Signature:  Date: 24/10/2024

Dr. Anne Njoki Ngeretha
Chuka University

COPYRIGHT

©2024

All rights reserved. No section of this research thesis may be duplicated, kept in a retrieval system or conveyed in any manner or by any means without the prior written consent from the copy right owner or Chuka University.

DEDICATION

I dedicate this work to my parents Mr. and Mrs. Justus Kavwele, My Dear Wife Bridget, Siblings, and friends for the support towards excellence in education and my career. May Almighty God abundantly bless you.

ACKNOWLEDGEMENT

I thank God for granting me an opportunity to do this research and enabling me to successfully carry it out. My genuine gratitude and deepest appreciation go to my supervisors Prof. Isaac M. Nkari, Dr. Anne N. Ngeretha and Ms. Jane Mumbi for the mentorship and professional guidance they have tirelessly offered me during this study. My thanks also go to all lecturers in the Faculty of Business Studies for their guidance throughout the entire research process.

Finally, I appreciate my course mates and friends for tirelessly supporting and encouraging me throughout the project. I will forever be indebted to them for positively influencing my career life.

ABSTRACT

The quality of financial reports of Savings and Credit Co-operatives (SACCOs) has been poor and declining in the past few years as evidenced by Tharaka Nithi Cooperative Audit Status Report 2022. To avoid this trend, SACCOs have focused on application of computerized systems to induce innovations and enhance the quality of reports and operations. The main objective of the study was to determine the effect of internal control systems on the quality of financial reports of non-deposit taking SACCOs in Tharaka Nithi County, Kenya. The specific objectives of the study were to determine the effect of control environment, control activities, risk assessment, information and communication and monitoring on quality of financial reports of nondeposit taking SACCOs. A census was taken of all the 35 non-deposits taking SACCOs that are incorporated and are headquartered and carry out their operations in the County. The study was anchored on agency theory, attribution theory and stewardship theory. The study used a structured questionnaire for data collection. Data was analyzed using both descriptive and inferential statistics with the help of Statistical Package for Social Sciences (SPSS) version 25.0. The hypotheses of the study were tested using t- test while the overall significance of the model was tested using F- Ratios at 5% level of significance. Multiple regression analysis was used to analyze the relationship between the variables in the study. Control environment has a regression coefficient (-0.721, P-value=0.006) implying that control environment has a negative statistically significant effect on quality of financial reports. Control activities have a positive statistically significant effect on financial report quality with a regression coefficient, which is (1.039, P-value=0.005). Risk assessment has a regression coefficient (0.703, P-value=0.035) implying that risk assessment has a positive statistically significant effect on quality of financial reports. Information and communication have a regression coefficient (0.817, P-value=0.000) implying that information and communication has a positive statistically significant effect on quality of financial reports. There was potentially insignificant moderation between internal control systems and competence of the board of directors with a regression coefficient of -0.659 and a p-value of 0.228>0.05. Findings from the study are expected to help determine the effect of internal control systems on quality of financial reports of SACCOs in Tharaka Nithi County. The study will help the SACCOs management understand the importance of having good internal controls that ensure quality financial records and report. This study will be of benefit to researchers since it will add to existing knowledge. The study recommends that firms should adopt proper control activities, develop risk identification, risk evaluation, risk response and risk program analysis strategies and ensure clear communication of information in order to improve the quality of financial reports.