



CORPORATE GOVERNANCE AND EFFECTIVE INTERNAL CONTROL DISCLOSURES IN SAVINGS AND CREDIT CO-OPERATIVES IN EMBU COUNTY, KENYA

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ABSTRACT

The aim of the study was to explore Corporate Governance and effective internal control disclosures in SACCO'S with 4 specific objectives; establish how board composition affects internal control disclosures in SACCO'S in Embu County, Kenya, assessing the extent to which management interaction affect internal control disclosures in SACCO'S in Embu County, to determine the relationship between strategic plans and internal control disclosures in Embu County, Kenya and to establish effects of Audit system on internal control disclosures in SACCO'S in Embu County, Kenya. The study used a descriptive research design. Population target were SACCO employees in Embu County and respondents were staff at the top, middle and lower level management from a random sample of 84 respondents selected from SACCO'S. Data was collected by use of questionnaires and analyzed using descriptive statistics. Data collected was coded and analyzed statistically by use of Computer Software SPSS (Statistical Package for Social Sciences) was employed in analysis. Quantitative data was analyzed using descriptive statistics while qualitative data was analyzed based on content analysis. Findings were presented using tables and charts, percentages, means and other central tendencies. The study found that Board composition, Management Interaction, Strategic Plans and Audit Systems to be factors that affect internal control disclosures. Most of the SACCOS had emphasized on the effective boards of management, invested in interactions with the stakeholders, constantly review of the SACCOS strategic plans and also audit systems which are transparent and reliable. The study recommends further research on SACCOS in other counties in Kenya to further find the level of corporate governance and effective Internal Control Disclosures.

KEYWORD(S): Corporate Governance; Internal Control; Internal Control problem; Disclosures; Stakeholder.

BACKGROUND OF THE STUDY

Kenya has the largest SACCO sector in Africa and seventh in the world (Ademba 2010), with SACCO'S related activities serving 63% of the population; which contributes up to 45% of the country's GDP (Ondieki, Okioga, Okwena & Onsane 2011). One of the pillars of vision 2030 is the economic pillar which aims to provide prosperity for all Kenyans by attaining an annual 10% growth rate per annum while sustaining it through the vision period. It aims to create a vibrant and globally competitive financial sector in Kenya that will create jobs and promote high savings levels to finance the country's investment needs. It's projected the savings rate will rise from 17%-30% of GDP within a decade.

INTERNAL CONTROLS

In Kenya, SACCO'S Corporate Governance and Internal Controls is built on processes, policies, customs and relationships among the stakeholder. Financial institutions involved in microfinance in Kenya include formal institutions like the banks, non-banks and licensed SACCO'S. SASRA began operations in 2010 to regulate the SACCO'S with all deposit taking SACCO'S required to apply for SASRA license by June 17, 2011 (Boston University Centre for Law and Policy 2014). The Centre for Corporate Governance (CCG) in Kenya is a company limited guarantee established by a private sector initiative for Corporate Governance and Internal Controls in 1999 to foster the highest standards of Corporate Governance in all types of corporations. The center endeavors to achieve its mandate through training, education, research, monitoring, evaluation and advocacy. Initially it embarked on a number of activities which were aimed at building and strengthening national capacity to apply, implement, monitor and assess good Corporate Governance principles and practices in order to promote high standards of Corporate Governance, business ethics and social responsibility in Kenya through increased opportunities for training of both public and private directors of corporations, research to address issues, problems and constraints in the promotion of good Corporate Governance and Internal Controls. Project activities at the inception envisioned and were implemented under 5 main components of; Institutional Capacity building, Education and Training, Research and Development, Monitoring and Evaluation, Advocacy and communication. The process involved information gathering and dissemination, development of instruments to guide implementation and application of principles and practices of Corporate Governance and Internal Controls as well as rewarding compliance with high standards of Corporate Governance and Internal Controls in Kenya (CCG.or.ke) The center began discussions with African Capacity Building Foundation (ACBF) in order to procure funding for Centre for Corporate Governance and Internal Controls 11 (CCG11) envisaged to cover strategic plan period of 2005-2009 which bore fruits in 2007. The plan shifted to restructuring the main center with the

aim of enhancing its self-generated income capability so as to make it play more critical role in self-financing necessary for its sustainability.

CORPORATE GOVERNANCE

Corporate Governance and Internal Controls is a framework that emerges from the company's top management, employees, customers, shareholders, executive management, suppliers and the board of directors to include internal affairs management as well as external links in order to control and safeguard the interest of the relevant stakeholders in the market (Achchuthan & Kajanathan, 2013.). Corporate Governance and Internal Controls helps define the relationship that exists between the organisation and its environment, political and social systems in which an organisation operates in linking it to economic performance because management and controls have an effect on performance and long run.

Solomon and Solomon (2004) have defined Corporate Governance and Internal Controls widely to encompass it as involving a wider number of participants primarily being management, shareholders and the board of directors. Other key players whose interests are affected by Corporate Governance and Internal Controls are employees, suppliers, customers, partners and the general community through the Corporate Social Responsibility. SACCO'S play an important role in wealth creation, food security and employment generations and hence contribute to poverty alleviation significantly (Kuria, 2005.)

Good governance in organisations is widely recognized as leading to good management/performance, stewardship of public money, good public engagement and outcomes. Good corporate governance sets the pace for external stakeholders assess governance of SACCO'S easing the capital rising due to their support. (Monks, 2011) states a company's value increases through adoption of good corporate governance practices. SACCO'S have a responsibility to mobilize in savings, investments of resources, wealth and employment creation (Nyaga 2010). National and County governments in Kenya can benefit from well managed cooperatives leading to realization of cooperative objectives of wealth creation for sustained economic growth and development (Wambua 2011).

RESEARCH METHODOLOGY

RESEARCH DESIGN

The study was conducted by use of a descriptive research design in search for correct information, about what, where and how a phenomenon determines the Corporate Governance and Internal Controls of SACCO'S. The design was used because it provided insights into the research problem by describing the variables of interest in preliminary and exploratory studies through gathering, summarizing, presenting and interpretation for the purpose of clarification (Wambua 2011).

Descriptive research is based on study fact that the researcher was interested on the state of affairs already existing in the field or the relationship between variables (Cooper & Schindler 2003) and no variable was manipulated by generalizing findings to a larger population.

TARGET POPULATION, SAMPLE AND SAMPLING PROCEDURES

According to Ngechu (2004) a population is a well-defined set of people, services, elements, events, group of things/households that are being investigated, which ensures population of interest to be homogeneous. The target population consisted of the total cases which confirm to the designated study specifications. The target population was employees in different levels of management in SACCO'S in Embu County which the study considered.

Sampling is the act, process or technique of selecting a suitable sample or a representative part of a population for the purpose of determining parameters or characteristics of the whole population (Mugo 2002). In order to achieve equal chance of interviewing respondents, stratified random sampling method was used to select strata of the population using simple random sampling resulting to a total of 84 respondents. Population was divided into departments and a random sample taken from each department. The advantage of the method is the ability to represent not only the overall population but also key subgroups of the population especially minority groups. Mugenda and Mugenda (2003); state that a sample size of 10% to 30% of the target population is sufficient for scientific research.

RESEARCH INSTRUMENTS AND DATA COLLECTION AND ANALYSIS

Data was collected from primary sources. Primary data was collected using structured questionnaires hand delivered to SACCO offices which had open ended questions to the top management who are better positioned to respond to questions satisfactorily since Corporate Governance and Internal Controls practices are largely implemented at their levels; and closed questions through "putting words' in the respondents mouth in an attempt to avoid serious thinking on the respondents part.

Content validity was employed in the study as a measure of the degree to which data collected using particular instruments represents a specific domain or concepts. Questionnaires validity was established through piloting while reliability was increased by including man similar items on a measure through testing a diverse sample of individuals and use of uniform testing procedures.

On completion of data collection, the completeness of questionnaires was checked. Data was grouped according to research question, analyzed using Statistical Package for Social Sciences (SPSS Version 21.0). Qualitative data was analyzed using conceptual content analysis and presented. The study categorized the Corporate Governance and Effective Internal Control Disclosures in Savings and Credit Co-Operatives in Embu County, Kenya into dependent and

independent variables. The dependent variable was Internal Control Disclosures while independent variables were, board composition, management interaction, strategic plans and audit systems.

RESULTS AND DISCUSSION

The regression model results show there is a positive relationship between corporate governance and internal control disclosures in SACCOS. With all other factors constant, internal control disclosures is measured by the effectiveness and efficient implementation of corporate governance principles. This implies that, a single unit increase in any independent variable which will result into a corresponding increase in internal control disclosures.

BOARD COMPOSITION AND INTERNAL CONTROL DISCLOSURES

The study found that Board members were conversant with SACCO management. These are clear indications that the leadership will be able to steer the SACCO to achieve its mandate. Additionally, the study found that board members receive regular training on management. Due to the unpredicted environment changes, these factors shows the SACCO'S are indeed trying to keep up to the levels required and match other competitors in the industry as suggested by Enobakhare (2010). The study found composition of independent directors within the boards to be a challenge faced by most SACCOS. The study contends with Mwambia (2013) study on a similar study on SACCOS in Meru, County Kenya. A similar study by Wasike (2012) on corporate governance at Elimu SACCO found boards to have impact on quality of corporate governance.

MANAGEMENT INTERACTION AND INTERNAL CONTROL DISCLOSURES

The study findings indicate that management interaction holds regular AGM meetings which serve as the platform for engaging with stakeholders. This is crucial as the robust communication ensures clarity from the SACCO towards the stakeholders. The results show to how respondents agree the effects of communication towards internal control disclosures. This helps reduce fear, mistrust and anxiety by stakeholders as the management keeps everyone updated with the operations of the SACCO. The study results agree with Otieno (2012) on a study on Corporate Governance in Commercial Banks in Kenya which found Boards hold regular meeting.

STRATEGIC PLANS AND INTERNAL CONTROL DISCLOSURES

The study results found Employees are fully aware of the objective by their SACCO'S. Employees are crucial factors under the human resource as they implement the strategic plans down at the operational level. Horngreen (2012) emphasizes the importance of employees within the organisation as they play the critical role in influencing control environments as directed by the management. SACCO delivering on the promise scored 4.19; this can be attributed to the employee's awareness of their responsibility and keeping achieving it. Stakeholders' consultation

before strategies development is sought and this helps keep the employees involved a recommendation cited by KPMG (1999). Study results contends with Wasike (2012) on a study on corporate governance at Elimu SACCO which found boards set strategic objectives and plans and puts in place proper management structures to achieve them by incorporating corporate governance through interaction among persons and groups, which provide resources and contributed to its performance.

AUDIT SYSTEMS AND INTERNAL CONTROL DISCLOSURES

The study found Audit system to be combined of both internal and external members, auditor's independency and audit members integrity to be remarkable. This is healthy to avoid biasness and increase integrity. These are factors that will likely increase disclosures as SACCO'S have no fear of disclosing the reports. In return this will promote capital reduction by lowering risk as cited by Matengo (2008). However the study found low presence of audit composition by including members from all departments. The findings of the study are similar to Mwambia (2013) study results on a study of corporate governance of SACCOS in Meru County, Kenya.

INTERNAL CONTROL DISCLOSURES

On internal control disclosures; the study found the integrity of SACCO disclosures. This clearly the level of confidence upon which the reports are accorded and should be treated with. Disclosures reduce asymmetry of information between the stakeholders and this promotes corporate governance as indicated by (Sang and Wood 2005). The study is in similar findings by positive Kamau (2014) on a study of corporate governance on manufacturing firms in Kenya found positive relationship between internal controls and financial performance.

CONCLUSIONS

The study findings concluded SACCOS that invest in effective Board composition have accessible internal control disclosures as compared to those SACCOS that don't invest in good board composition. The study findings found board independence, conversation with SACCO management and regular training to have positive bearing on internal control disclosures. Similarly, management interaction with the stakeholders through the AGMS, internal/external communication, staff awareness and reliability of the communication channels to have bearing on the effectiveness of internal control disclosures. Strategic plans developments through stakeholder's consultation, delivery by SACCO on its promise and employees awareness were cited as key indicators of good internal control disclosures. Finally, auditor's integrity, combination of both internal and external members of the audit team and publication of audit reports were found as strong indicators of good internal control disclosures practices

AREAS OF FURTHER RESEARCH

The study investigated effects of corporate governance on internal control disclosures in SACCOS in Embu County, Kenya. Multiple regression equation showed that all the four independent variables influenced internal control disclosures. The constant regression equation meant that other than the four independent variables, there are other factors that affect internal control disclosures; therefore the researcher recommends more study to be carried out on other variables to determine the consistency with these findings. The findings results suggest further research in SACCOS on areas of;

- I. Audit Systems, the mixture of audit members and audit report publication effects on internal control disclosures.
- II. Board composition, effects of external board members towards internal control disclosures.
- III. Appointment of independent directors to the boards and their effects on internal control disclosures to be done considering SACCOS in other counties in Kenya so as to assess the relationships between corporate governance and internal control disclosures.

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