



# Influence of Internal Control Practices on Financial Performance of Deposit-Taking SACCOs in Kenya: The Moderating Role of Firm Size

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**Abstract** – This study investigates the influence of internal control practices on the financial performance of Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya, with firm size introduced as a moderating variable. Anchored on Agency Theory and Resource Dependence Theory, the study adopted a descriptive and explanatory research design involving 221 governance-level respondents drawn from SACCOs regulated by SASRA. Internal control practices were measured through control environment, audit systems, compliance structures, ICT-based monitoring, and fraud prevention mechanisms, while financial performance was assessed using profitability, liquidity, and asset quality indicators. Findings reveal that internal control practices significantly and positively influence financial performance. However, firm size significantly moderates this relationship, with larger SACCOs deriving stronger performance gains due to better institutional capacity, while smaller SACCOs face structural and resource constraints. The study concludes that internal control effectiveness is context-dependent and recommends differentiated governance frameworks across SACCO sizes.

**Keywords** - Internal control practices; financial performance; Deposit-Taking SACCOs; firm size; corporate governance; Kenya; fraud prevention; audit effectiveness; Resource Dependence Theory; Agency Theory; financial reporting.

## I. INTRODUCTION

Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya constitute a critical component of the country's financial architecture, particularly in advancing financial inclusion among underserved and low-income populations. These institutions perform a dual function of mobilizing savings and extending credit, thereby bridging the financing gap that often excludes a significant proportion of individuals and micro, small, and medium enterprises from formal banking systems. Over the years, the sector has experienced remarkable expansion in membership base, asset accumulation, and geographical outreach, reflecting increasing public confidence in cooperative financial systems (SASRA, 2025).

Despite this expansion, the financial performance of DT-SACCOs has remained inconsistent. Regulatory reports indicate that while many SACCOs comply with prudential guidelines on capital adequacy and liquidity, they continue to experience challenges related to declining profitability, rising non-performing loans, and inefficiencies in cost management structures (SASRA, 2023; SASRA, 2025). These persistent performance gaps suggest that growth in size and regulatory compliance alone may not be sufficient to guarantee financial sustainability within the sector. Instead, internal governance mechanisms, particularly internal control systems, are increasingly recognized as critical determinants of institutional performance.

Internal control practices refer to the structured policies, procedures, and mechanisms established to ensure the reliability of financial reporting, safeguard organizational assets, enhance operational efficiency, and ensure compliance with applicable laws and regulations. In financial institutions, strong internal control systems play a

central role in minimizing fraud risk, improving accountability, and enhancing decision-making efficiency. According to COSO (2013), effective internal control systems are foundational to achieving organizational objectives related to operations, reporting, and compliance.

Within DT-SACCOs, internal control practices are expected to strengthen financial discipline by ensuring that lending processes are properly monitored, financial records are accurately maintained, and operational risks are effectively managed. However, empirical and regulatory observations suggest that the effectiveness of these systems varies significantly across institutions. While some SACCOs demonstrate strong internal audit structures and robust compliance mechanisms, others continue to experience weaknesses in audit follow-up, fraud detection systems, and enforcement of control recommendations. These inconsistencies raise important concerns regarding the overall effectiveness of internal control systems in enhancing financial performance across the sector.

Furthermore, emerging evidence suggests that the effectiveness of internal control practices may not be uniform across all DT-SACCOs, as organizational characteristics such as firm size may influence their implementation and impact. Larger SACCOs often possess greater financial resources, more sophisticated information systems, and more structured internal audit departments, which may enhance the effectiveness of internal controls. Conversely, smaller SACCOs may face constraints such as limited technical capacity, inadequate staffing, and weaker governance structures, which may reduce the effectiveness of internal control systems in improving financial outcomes.



Despite the recognized importance of internal controls in financial governance, there remains a notable gap in empirical literature regarding how these systems influence financial performance within DT-SACCOs in Kenya, particularly when moderated by firm size. Much of the existing research has focused on broader corporate governance constructs, with limited attention to internal control systems as a distinct explanatory variable. Additionally, few studies have examined the contextual conditions under which internal control practices are more or less effective in influencing financial outcomes.

In response to this gap, this study examines the influence of internal control practices on the financial performance of DT-SACCOs in Kenya and further investigates the moderating role of firm size in this relationship. By integrating Agency Theory and Resource Dependence Theory, the study provides a theoretical foundation for understanding how internal monitoring systems affect financial outcomes and how organizational scale shapes governance effectiveness. The findings are expected to contribute to both academic discourse on cooperative governance and practical policy formulation aimed at strengthening financial sustainability within Kenya's SACCO sector.

## II. LITERATURE REVIEW AND THEORETICAL FOUNDATION

### 1. Internal Control Practices and Financial Performance

Internal control systems constitute a fundamental component of corporate governance, designed to ensure operational efficiency, reliability of financial reporting, compliance with regulatory requirements, and safeguarding of organizational assets. In financial institutions, internal controls serve as the primary mechanism for minimizing risks, enhancing accountability, and ensuring that organizational resources are utilized in alignment with strategic objectives. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), an effective internal control system is composed of five interrelated components: control environment, risk assessment, control activities, information and communication systems, and monitoring activities. These components collectively establish a structured governance framework that supports organizational effectiveness and financial integrity.

The control environment represents the foundation of internal control systems, encompassing organizational culture, ethical values, governance structure, and management philosophy. Risk assessment involves the systematic identification and evaluation of risks that may hinder the achievement of institutional objectives. Control activities refer to policies and procedures that ensure management directives are executed effectively, while information and communication systems facilitate the flow of relevant financial and operational data across the

organization. Monitoring activities ensure continuous evaluation of internal control effectiveness and timely correction of identified deficiencies (COSO, 2013).

Empirical literature consistently demonstrates a positive relationship between internal control systems and financial performance. Strong internal control structures have been associated with improved profitability, enhanced operational efficiency, and reduced financial misstatement risks. For instance, Mugo et al. (2020) found that SACCOs with well-established internal control systems exhibit higher financial performance due to improved loan recovery mechanisms and enhanced liquidity management. Similarly, Nguyen et al. (2023) established that effective internal controls contribute significantly to firm performance by reducing fraud risk, improving compliance, and strengthening decision-making processes. In cooperative financial institutions, internal control systems play an even more critical role due to the member-owned nature of governance structures. In such settings, weaknesses in internal controls can lead to agency conflicts, misallocation of resources, and reduced member confidence. Strong internal control systems, on the other hand, enhance transparency, improve accountability, and ensure that financial resources are managed prudently in the interest of members. Consequently, they contribute directly to institutional sustainability and financial stability.

In the Kenyan Deposit-Taking SACCO sector, internal control systems have improved significantly due to regulatory interventions introduced by the SACCO Societies Regulatory Authority (SASRA). These reforms have strengthened compliance requirements, enhanced audit oversight, and improved reporting standards across institutions. However, despite these advancements, implementation gaps persist. Key challenges include weak audit independence, inconsistent enforcement of internal control recommendations, and limited adoption of automated control systems. These challenges are particularly pronounced in smaller SACCOs, which often face resource constraints, limited technical capacity, and weaker governance structures.

Overall, the literature indicates that while internal control systems are widely recognized as critical determinants of financial performance, their effectiveness is influenced by both institutional capacity and contextual factors such as organizational size. This highlights the need for a more nuanced examination of how internal control practices operate within heterogeneous institutional environments such as DT-SACCOs in Kenya.

### 2. Theoretical Framework

#### Agency Theory

Agency Theory, as developed by Jensen and Meckling (1976), provides a foundational explanation of contractual relationships within organizations where decision-making authority is delegated from principals (members) to agents



(managers). In the context of Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs), members act as principals who entrust managerial responsibilities to elected boards and professional managers to oversee daily financial operations.

A central assumption of Agency Theory is that agents may not always act in the best interest of principals due to divergent objectives, imperfect monitoring, and information asymmetry. This divergence creates agency problems, which may manifest in opportunistic behavior, inefficiencies, or suboptimal financial decisions. In SACCOs, such agency conflicts can result in weak loan recovery practices, inflated operational costs, or misreporting of financial performance, thereby undermining institutional sustainability.

Internal control systems are therefore critical governance instruments for mitigating agency problems. These systems function as structured monitoring and accountability mechanisms that enhance transparency in financial reporting, enforce compliance with established procedures, and ensure that managerial actions align with member interests. By improving the flow and reliability of financial information, internal controls reduce information asymmetry between management and members, thereby strengthening oversight and decision-making processes.

Strong internal control systems also reduce agency costs by limiting managerial discretion and enhancing the enforceability of governance policies. In DT-SACCOs, this translates into improved loan portfolio management, better risk control, and enhanced financial discipline. Consequently, Agency Theory provides a strong conceptual basis for understanding how internal control practices influence financial performance through improved accountability and reduced managerial opportunism (Jensen & Meckling, 1976).

### **Resource Dependence Theory**

Resource Dependence Theory, advanced by Pfeffer and Salancik (1978), posits that organizational behavior and effectiveness are largely shaped by the external resources upon which an organization depends for survival and performance. According to this theory, organizations are not self-sufficient; rather, they must continuously acquire and manage critical resources such as capital, technology, expertise, and information to remain competitive and sustainable.

Within DT-SACCOs, internal control systems represent resource-intensive governance structures that require adequate financial investment, skilled human capital, and robust technological infrastructure to function effectively. These systems include internal audit functions, risk management frameworks, ICT-based monitoring tools, and compliance enforcement mechanisms. The effectiveness of these systems is therefore contingent upon the availability and efficient allocation of organizational resources.

Larger SACCOs typically possess greater resource capacity, enabling them to implement sophisticated internal control systems, employ qualified audit personnel, and adopt advanced digital governance platforms. These advantages enhance their ability to monitor financial activities, detect irregularities, and ensure compliance with regulatory requirements. Conversely, smaller SACCOs often face resource constraints, including limited financial capacity, inadequate staffing, and weaker technological infrastructure, which hinder the effective implementation of internal control systems.

As a result, Resource Dependence Theory explains why the effectiveness of internal control practices varies across SACCOs of different sizes. It further justifies the moderating role of firm size in this study, as organizational scale determines the extent to which SACCOs can acquire and deploy the necessary resources to support effective internal control systems. Consequently, SACCO size becomes a critical contextual factor shaping the relationship between internal control practices and financial performance (Pfeffer & Salancik, 1978).

## **III. METHODOLOGY**

### **1. Research Design**

This study adopted a descriptive and explanatory research design to examine the influence of internal control practices on the financial performance of Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya, with particular emphasis on the moderating role of firm size. The descriptive design was appropriate for providing a structured profile of internal control systems and financial performance indicators across SACCOs, while the explanatory design facilitated the testing of causal relationships between study variables.

The integration of both designs is consistent with positivist research traditions, which emphasize objective measurement, statistical analysis, and hypothesis testing in organizational and financial studies. This approach enables a systematic examination of how governance mechanisms such as internal controls influence measurable financial outcomes in regulated financial institutions.

### **2. Target Population**

The target population comprised all licensed Deposit-Taking SACCOs in Kenya regulated by the SACCO Societies Regulatory Authority (SASRA). These SACCOs represent formally registered financial cooperatives authorized to mobilize deposits and provide credit facilities to members under regulatory supervision. The population was considered appropriate for the study due to its relevance to financial governance, regulatory compliance, and institutional performance assessment within Kenya's cooperative financial sector.



### 3. Sample Size and Sampling Technique

The study involved 221 governance-level respondents drawn from selected DT-SACCOs. Respondents included Chief Executive Officers (CEOs), Board members, and Heads of Internal Audit units. These categories were selected due to their direct involvement in governance oversight, internal control implementation, and financial decision-making processes.

A stratified random sampling technique was employed to ensure proportional representation across SACCO size categories (large, medium, and small) as well as geographical distribution. Stratification was essential due to heterogeneity in institutional size, governance capacity, and operational structures among DT-SACCOs. This approach enhances representativeness and reduces sampling bias, ensuring that findings accurately reflect variations within the sector (Cochran, 1977).

### 4. Data Collection Methods

Data were collected using structured questionnaires designed to capture standardized responses on internal control practices, financial performance, and firm size. The questionnaire utilized a 5-point Likert scale ranging from strongly disagree to strongly agree, allowing for quantification of perceptions and organizational practices. Internal control practices were operationalized through five key dimensions: fraud prevention systems, audit effectiveness, ICT integration, role clarity, and compliance monitoring systems. Financial performance was measured using indicators such as return on assets (ROA), return on equity (ROE), liquidity ratios, and loan recovery performance. These indicators were selected to provide a comprehensive assessment of both profitability and financial stability.

### 5. Data Analysis Techniques

Data were analyzed using Statistical Package for Social Sciences (SPSS) Version 26. The analysis proceeded in multiple stages to ensure robust interpretation of relationships among variables.

First, descriptive statistics such as means, frequencies, and standard deviations were used to summarize the characteristics of internal control practices and financial performance across SACCOs. This provided an overview of the general trends in governance and financial outcomes.

Second, Pearson correlation analysis was conducted to examine the strength and direction of relationships between internal control practices and financial performance.

Third, multiple regression analysis was employed to determine the predictive effect of internal control practices on financial performance. This enabled quantification of the extent to which internal controls explain variations in financial outcomes.

Finally, hierarchical moderated regression analysis was used to test the moderating effect of firm size on the relationship between internal control practices and financial performance. This method allowed for stepwise inclusion of variables and interaction terms to assess changes in explanatory power and interaction effects, consistent with moderation analysis standards in governance research (Aiken & West, 1991).

## IV RESULTS

### 1. Descriptive Findings

The descriptive analysis of internal control practices among Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya indicates that the overall implementation of internal control systems is moderately strong, with a composite mean score exceeding 3.70. This suggests that, on average, DT-SACCOs have established functional internal control frameworks that support basic governance, compliance, and operational oversight requirements.

Further examination of individual dimensions reveals that certain aspects of internal control practices are relatively well developed across the sector. Fraud prevention mechanisms recorded strong scores, indicating that most SACCOs have instituted systems aimed at detecting, preventing, and mitigating fraudulent activities. These mechanisms are critical in safeguarding member deposits and ensuring financial integrity within cooperative financial institutions. Similarly, clearly defined roles and responsibilities within governance and operational structures were identified as a strong area. This reflects improved clarity in organizational structures, which enhances accountability, reduces role ambiguity, and strengthens internal coordination.

Another relatively strong area observed was the resolution of control gaps, suggesting that many SACCOs have mechanisms in place to identify and address weaknesses within their internal control systems. This indicates an increasing awareness of the importance of continuous improvement in governance systems and risk management practices.

Despite these strengths, the findings also reveal notable weaknesses in key areas of internal control implementation. Periodic testing of internal control systems was identified as a major gap, suggesting that many SACCOs do not consistently evaluate the effectiveness of their control mechanisms over time. This limitation may reduce the ability of institutions to detect emerging risks and adjust control systems proactively.

In addition, weaknesses were observed in audit follow-up mechanisms, indicating that recommendations arising from internal or external audit processes are not always fully implemented or monitored. This gap undermines the



effectiveness of audit functions and may weaken overall governance accountability within SACCOs.

Overall, these findings suggest that while internal control systems in DT-SACCOs are generally established and functional, their effectiveness is uneven across institutions. The presence of strong foundational control structures is offset by weaknesses in monitoring, evaluation, and enforcement mechanisms. This imbalance highlights the need for strengthened continuous auditing processes and improved follow-up systems to enhance the overall effectiveness of internal controls in improving financial performance.

## 2. Correlation Analysis

A Pearson correlation analysis was conducted to examine the relationship between internal control practices and financial performance among Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya. The results revealed a strong, positive, and statistically significant relationship between the two variables ( $r = 0.849$ ,  $p < 0.001$ ).

This finding indicates that improvements in internal control practices are strongly associated with enhanced financial performance outcomes within DT-SACCOs. In practical terms, SACCOs that demonstrate stronger fraud prevention systems, clearer role structures, effective audit mechanisms, and improved compliance monitoring tend to achieve better financial results in terms of profitability, liquidity management, and loan performance.

The magnitude of the correlation coefficient ( $r = 0.849$ ) suggests a robust linear association, implying that internal control practices are a major governance factor influencing financial outcomes in the SACCO sector. The statistical significance ( $p < 0.001$ ) further confirms that the observed relationship is highly unlikely to have occurred by chance, thereby reinforcing the reliability of the association.

From a governance perspective, this result is consistent with Agency Theory, which argues that strong monitoring mechanisms reduce information asymmetry between managers and members, thereby improving accountability and organizational efficiency (Jensen & Meckling, 1976). It also aligns with Resource Dependence Theory, which emphasizes that effective internal systems enhance an organization's ability to manage resources efficiently and improve performance outcomes (Pfeffer & Salancik, 1978).

Overall, the correlation results provide strong preliminary empirical evidence that internal control practices play a critical role in shaping financial performance in DT-SACCOs in Kenya.

## 3. Regression Analysis

A simple linear regression analysis was conducted to determine the extent to which internal control practices

predict financial performance among Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya. The results indicate that internal control practices are a statistically significant and strong predictor of financial performance.

The model summary shows an  $R^2$  value of 0.721, implying that 72.1% of the variation in financial performance is explained by internal control practices. This indicates a high explanatory power of the model and suggests that internal control systems constitute a major governance determinant of financial outcomes within DT-SACCOs.

The regression coefficient ( $\beta = 0.393$ ) is positive and statistically significant, indicating that an improvement in internal control practices leads to a corresponding increase in financial performance. This suggests that SACCOs with stronger fraud prevention systems, more effective audit mechanisms, clearer role definitions, and stronger compliance monitoring frameworks tend to achieve superior financial outcomes compared to those with weaker internal control structures.

The F-statistic ( $F = 565.128$ ,  $p < 0.001$ ) confirms that the overall regression model is statistically significant, indicating that the relationship between internal control practices and financial performance is not due to random variation but reflects a strong and reliable predictive relationship.

Overall, these findings provide robust empirical evidence that internal control practices play a critical role in enhancing financial performance in DT-SACCOs in Kenya. The results underscore the importance of strengthening internal governance systems as a strategic mechanism for improving institutional sustainability and financial efficiency.

## 4. Moderating Effect of Firm Size

A hierarchical regression analysis was conducted to examine the moderating effect of firm size on the relationship between internal control practices and financial performance among Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya. The results indicate that firm size significantly moderates this relationship, confirming that the impact of internal control systems on financial performance varies across institutions depending on their scale of operation.

The findings reveal that larger SACCOs derive greater benefits from internal control practices compared to smaller SACCOs. This enhanced effectiveness is largely attributed to stronger institutional capacity, including greater financial and human resource availability. Larger SACCOs are better positioned to recruit qualified internal audit personnel, invest in governance systems, and sustain continuous monitoring of internal control processes, thereby strengthening their financial performance outcomes.



In addition, advanced ICT infrastructure in larger SACCOs plays a critical role in enhancing the effectiveness of internal control systems. Digital financial management systems, automated reporting tools, and integrated risk monitoring platforms improve accuracy, timeliness, and reliability of financial information. These technological advantages enhance control efficiency and support real time decision making, thereby strengthening overall financial performance.

Furthermore, stronger audit and compliance structures in larger SACCOs contribute significantly to the effectiveness of internal control systems. Well established audit committees, independent internal audit functions, and structured compliance frameworks ensure that control recommendations are implemented effectively and that governance standards are consistently maintained.

In contrast, smaller SACCOs face substantial implementation constraints that limit the effectiveness of internal control systems. These constraints include limited staffing capacity, inadequate technical expertise, weak digital infrastructure, and lower audit capability. As a result, internal control mechanisms in smaller SACCOs tend to be less effective in translating governance processes into improved financial performance outcomes. Overall, these findings confirm a contingency based governance perspective, where the effectiveness of internal control practices is dependent on institutional characteristics, particularly firm size. This implies that governance systems are not universally effective in a uniform manner but instead vary according to organizational scale, resource availability, and operational complexity.

## V. DISCUSSION

The findings of this study provide strong empirical evidence that internal control practices are a significant determinant of financial performance among Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya. This relationship is both statistically and practically meaningful, suggesting that SACCOs with stronger internal control systems tend to achieve superior financial outcomes in terms of profitability, liquidity management, and operational efficiency.

From a theoretical standpoint, these findings strongly align with Agency Theory (Jensen & Meckling, 1976), which emphasizes the role of monitoring mechanisms in reducing information asymmetry between managers (agents) and members (principals). In DT-SACCOs, internal control systems function as structured governance tools that enhance transparency, enforce accountability, and reduce opportunities for managerial opportunism. By strengthening oversight mechanisms such as internal audit functions, compliance monitoring, and fraud prevention systems, internal controls reduce agency costs and improve

alignment between managerial decisions and members' financial interests.

The results also support Resource Dependence Theory (Pfeffer & Salancik, 1978), which argues that organizational effectiveness is shaped by the ability to acquire, manage, and deploy critical resources. In this context, internal control systems require adequate financial resources, skilled personnel, and technological infrastructure to function effectively. Larger SACCOs are better positioned to mobilize these resources, enabling them to implement sophisticated control systems, strengthen audit capacity, and adopt advanced ICT-based monitoring tools. Consequently, they achieve higher efficiency in translating governance mechanisms into improved financial performance. In contrast, smaller SACCOs often operate under resource constraints that limit their ability to fully implement and sustain robust internal control systems.

Furthermore, the moderating effect of firm size highlights an important contingency dimension in governance-performance relationships. The findings demonstrate that the effectiveness of internal control practices is not uniform across institutions but varies depending on organizational scale. This supports the principles of Contingency Theory, which posits that organizational effectiveness depends on the fit between internal systems and contextual conditions. In larger SACCOs, internal control systems yield stronger performance effects due to institutional sophistication, digital integration, and stronger audit structures. However, in smaller SACCOs, structural limitations such as weak ICT infrastructure, inadequate staffing, and limited audit capacity reduce the effectiveness of these systems in improving financial outcomes.

Overall, the discussion underscores that internal control practices are not only essential governance mechanisms but also context-sensitive tools whose effectiveness depends on organizational capacity and scale. This reinforces the need for differentiated governance frameworks that recognize structural diversity within the DT-SACCO sector.

## VI. CONCLUSION

The findings of this study provide robust empirical evidence that internal control practices play a significant role in enhancing the financial performance of Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya. This confirms that well structured internal control systems contribute meaningfully to improved profitability, strengthened operational efficiency, enhanced loan portfolio quality, and overall financial stability within the SACCO sector.

However, the results further demonstrate that the strength of this relationship is not uniform across all institutions. Firm size emerges as a significant moderating factor that



influences the extent to which internal control practices translate into improved financial performance. Larger SACCOs experience stronger positive effects from internal control systems due to their greater institutional capacity, more advanced technological infrastructure, and stronger audit and compliance structures. These advantages enable them to implement and sustain effective internal control mechanisms more efficiently.

In contrast, smaller SACCOs face structural and resource limitations that weaken the effectiveness of internal control systems. Constraints such as limited financial resources, inadequate staffing, weak ICT infrastructure, and less developed audit functions reduce their ability to fully operationalize internal control frameworks. As a result, the impact of internal control practices on financial performance is comparatively weaker in smaller institutions.

Overall, the study confirms that governance systems, particularly internal control practices, are not universally effective in a uniform manner. Instead, their effectiveness is contingent upon institutional scale, resource availability, and organizational capacity. This reinforces the importance of adopting differentiated governance approaches that account for SACCO size in order to enhance financial performance across the sector.

### Recommendations

Based on the empirical findings of this study, the following recommendations are proposed to enhance the effectiveness of internal control practices and improve financial performance within Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Kenya.

First, SACCOs should strengthen the independence of internal audit functions and increase the frequency of internal control testing. Independent and well-resourced internal audit units are essential for ensuring objective evaluation of financial processes, timely identification of control weaknesses, and enforcement of corrective actions. Regular and systematic control testing will enhance early detection of risks, improve compliance, and strengthen overall financial discipline within institutions.

Second, digital transformation of internal control systems should be prioritized across all DT-SACCOs. The adoption of integrated financial management systems, automated audit tools, and real-time monitoring platforms will significantly improve the accuracy, efficiency, and timeliness of internal controls. Digital systems will also reduce manual errors, enhance data integrity, and support proactive risk management, thereby improving financial performance outcomes.

Third, the SACCO Societies Regulatory Authority (SASRA) should implement differentiated governance frameworks based on SACCO size. Given that firm size significantly moderates the effectiveness of internal control

systems, regulatory requirements should be tailored to reflect institutional capacity. Larger SACCOs may require more complex governance and reporting structures, while smaller SACCOs should be supported with simplified but effective compliance frameworks that reflect their resource limitations.

Fourth, targeted capacity-building programs should be introduced to strengthen the internal control capabilities of smaller SACCOs. These programs should focus on enhancing staff competencies in internal auditing, financial reporting, risk management, and ICT utilization. Strengthening human capital in smaller SACCOs will improve their ability to implement internal control systems effectively and bridge the performance gap between large and small institutions.

Overall, these recommendations emphasize the need for both institutional strengthening and regulatory differentiation to ensure that internal control systems effectively contribute to improved financial performance across all DT-SACCOs in Kenya.

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