

# Effects of Internal Control Systems on Credibility of Financial Statements in SACCOS. A Case of Kyamuhunga People's Co-Operative Savings and Credit Society Limited Bushenyi, Uganda

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## ABSTRACT

The SACCO is faced with difficulties, according to KYAPS's 2021 audit report, including incredible financial reports resulting from material misstatements, material uncertainty from board members and management, loan applicants forging documents, receipts for nonexistent assets and transactions, dishonest details provided by borrowers, and a higher loan default rate. The present study aimed at establishing the relationship between monitoring and evaluation and credibility of financial statements, risk assessment on the credibility of financial statements, the relationship between Internal Audit and credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society. Correlational research designs were used in this study. Self-administered organized survey questions and interview guides were used. 63 respondents from the KYAPS SACCO participated in this study. SPSS- version 26.0 was used for analysis to obtain descriptive statistics. Pearson linear correlation coefficient and regression analysis was used for analysis and thus there is a significant and positive relationship between monitoring and evaluation and credibility of financial statements as shown by correlation coefficient of 0.740 and P value  $.000 < 0.05$ ., risk assessment and credibility of financial statements with 0.733 and p value  $.000 < 0.05$ ., and internal audit and credibility of financial statements with correlation coefficient of 0.788 and p value  $.000 < 0.05$ . The findings of the study indicate that there is a significant positive relationship between monitoring and evaluation and credibility of financial statements in KYAPS suggesting that an improvement in monitoring and evaluation leads to improved credibility of financial statements as indicated by the findings, effective implementation of risk assessment results into Credible Financial Statements and that an improvement in Internal audit leads to attainment of credible financial statements. SACCO managers should strengthen the monitoring and evaluation to ensure improved accountability and hence credible financial statements, Risk assessment is emphasized by management to carry out business in an orderly and efficient manner and management should always keep them informed of any new internal controls introduced so as to ensure their effective implementation since they are the very people to implement the policies.

**Keywords:** Internal Control Systems, Credibility of Financial Statements, Monitoring and Evaluation, Risk Assessment, Internal Audit

## INTRODUCTION

The field of internal control systems progressively advanced alongside management, particularly by the close of World War II. Like in the concept of quality assurance, banking compliance tasks, and financial auditing by public accounting firms. With the passage of the Sarbanes-Oxley Act in the United States in 2017 management consultancy and public accounting careers have contributed significantly to the theory behind internal control systems. As more internal auditors developed the abilities necessary to assist businesses and government organizations in meeting the criteria of the tales, the profession's expansion accelerated (SAS 300) [1, 2]. Internal control systems are a measure of checks and balances that a business establishes to carry out a systematic method that management can rely on to achieve its intended goals, according to the Auditing Standard Board. However, that was in the US and it was for private entities, so it might not apply to public entities. Moreover, many internal auditors might not have the essential skills to assist private companies and governmental organizations in reaching their objectives. Latest proceedings show that to increase the value of their operations, public institutions and organizations must be able to raise the bar in terms of financial performance and reporting, including the advancement of service delivery in their structures [3]. The SACCO is faced with difficulties, according to KYAPS's 2021 audit report, including incredible financial reports resulting from material misstatements, material

uncertainty from board members and management, loan applicants forging documents, receipts for nonexistent assets and transactions, dishonest details provided by borrowers, and a higher loan default rate because of COVID-19. The purpose of financial statements is to serve as a formal record of business activities, and they give users of the information such as shareholders, managers, employees, and banks, a broad overview of the company's financial position and profitability over the short- and long-term. They also provide information for tax analysts.

There have been studies linking internal audits and the credibility of financial statements in developed and developing nations [4, 5, 6], but none have examined how internal controls affect the credibility of financial statements in Uganda, particularly in SACCOs like KYAPs. Regarding KYAP, this study aims to demonstrate the exceptional potential of internal controls in enhancing the validity of financial statements in SACCOs in Uganda. Like other SACCOs, KYAPS has been conducting both internal and external audits. The Board Members have a material misstatement, which is defined as information in the financial statements that is sufficiently incorrect that it may affect the economic decision of someone relying on those statements, according to the auditor's report published for the period ended 31st December 2021. A material uncertainty is associated with events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Kisaka & Company Certified Public Accountants of Uganda identified KYAPS as one of the institutions with unqualified reports. Organizations make significant investments in internal control systems as a way to lessen if not eliminate, the losses brought on by fraud and mistakes made by many stakeholders. The integrity of the company's financial statements is being eroded year after year in KYAPS as a result of fraud and errors that have continued despite this. The SACCO is faced with difficulties, according to KYAPS's 2021 audit report, including incredible financial reports resulting from material misstatements, material uncertainty from board members and management, loan applicants forging documents, receipts for nonexistent assets and transactions, dishonest information from loan applicants, and a higher loan default rate because of COVID-19. Financial statements are intended to be a formal record of business activities, and they give users of the information—such as shareholders, managers, employees, and banks—a broad overview of the company's financial position and profitability over the short- and long-term. They also provide information for tax analysts. There have been studies linking internal audits and the credibility of financial statements in developed and developing nations [4, 5, 6], but none have examined how internal controls affect the credibility of financial statements in Uganda, particularly in SACCOs like KYAPs. This study aims to demonstrate the outstanding possibility of internal controls on the reliability of financial statements in SACCOs in Uganda concerning KYAPS.

#### **Purpose of the Study**

To establish the link between internal control systems and the credibility of financial statements using Kyamuhunga Peoples' Cooperative Savings and Credit Society Limited as a case study.

#### **Specific Objectives**

The study was guided by the following specific objectives;

- i. To establish the relationship between monitoring and evaluation and credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society
- ii. To determine the relationship between risk Management on the credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society.
- iii. To assess the relationship between Internal Audit and the credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society.

#### **Hypothesis of the Study**

The study tested the following research hypothesis;

**H<sub>01</sub>** There is no significant relationship between monitoring and evaluation of the credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society.

**H<sub>02</sub>** There is no significant relationship between risk Management on the credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society.

**H<sub>03</sub>** There is no significant relationship between internal Audit and the credibility of financial statements, a case of Kyamuhunga Peoples' Cooperative Savings and Credit Society.

### **RESEARCH METHODOLOGY**

#### **Research Design**

A correlational research design was used in the investigation. According to [7], correlation is the assessment of the existence and strength of a link between two or more variables. To investigate the impact that internal control has on the credibility of financial statements, correlation is used to ascertain how the two variables relate to one another. Responses from participants were noted, typed up, and compiled in frequency tables. Utilizing upsetting statistics of frequencies and percentages, a quantitative approach allowed the investigator to gather information that was presented in numerical format by the subjects and sub-themes of the research.

### Study Population

A population, as by [8], is an entire collection of people, things, or events that share a particular observable trait. In other terms, the population is the total of all individuals who meet a particular specification. Population is defined by [9] as the total group of individuals, occasions, or interesting objects that the researcher desires to study. The 75 staff of four branches of KYAPS—Butare (35), Katerera (15), Rutokye (14), and Ishaka (11), will be the target population, consisting of the board members, the management team, the procurement team, and the accounts team. Six management members, one auditor, two account examiners, three accountants, 36 loan officers, seven board members, four procurement officers, and sixteen cashiers from KYAPS SACCO all participated in the study.

**Table 1: Study Population**

| Branch       | Population |
|--------------|------------|
| Butare       | 35         |
| Katerera     | 15         |
| Rutokye      | 14         |
| Ishaka       | 11         |
| <b>Total</b> | <b>75</b>  |

### Sample Size

When referring to humans, a sample is described as a group of participants chosen from a bigger sample size of a survey. A sample is a limited portion of a statistical group whose properties are analyzed to learn more about the total. Sixty-three (63) respondents from the KYAPS SACCO participated in the study, including all of the auditors, examiners of accounts, accountants, loan officers, board members, procurement officers, managers, and cashiers. Utilizing Sloven's formula, the researcher determined the sample size.

Based on the Slovenes formula  $(N/1+N(0.05)^2)$ .

$$75/1+75(0.05)^2 = 63 \text{ respondents}$$

**Table 2: Sample Distribution**

| Category             | Population | Proportion | Sample size | Sampling techniques    |
|----------------------|------------|------------|-------------|------------------------|
| Loans officers       | 36         | $36/75*63$ | 30          | Simple random sampling |
| Managers             | 6          | $6/75*63$  | 5           | Purposive              |
| Board Members        | 7          | $7/75*63$  | 6           | Purposive              |
| Accountants          | 5          | $5/75*63$  | 4           | Purposive              |
| Procurement officers | 4          | $4/75*63$  | 3           | Purposive              |
| Cashiers             | 16         | $16/75*63$ | 14          | Simple random sampling |
| Auditor              | 1          | $1/75*63$  | 1           | Purposive              |
| <b>Total</b>         | <b>75</b>  |            | <b>63</b>   |                        |

### Sampling Techniques

The sample was determined using two sampling methods that were Purposive and simple random sampling techniques were used. Purposive sampling is a sampling method that is used when the whole population is to be studied. It was also used to select key formants to respond to interviews and to provide important information to the study. Purposive sampling allowed the researcher to select a small number of rich cases that provide a comprehensive grasp of an interesting phenomenon [10]. Simple random sampling is a subset of a statistical population where each member's probability of selection is the same. Thus, it is intended to reflect a group objectively. Simple random sampling was used because it gives all the respondents chances of being selected.

### Research Instruments

The following instruments were used to collect data.

#### Questionnaire

A questionnaire is list of inquiries made for people to gather statistically significant data on certain subject. Questionnaires can be a valuable tool for making generalizations about entire populations or specific subgroups of

people when they are thoughtfully designed and ethically used. Because they yield a high response rate, save time, and produce trustworthy data, questionnaires are frequently used in social research. In this study, it was given to KYAPS personnel as they are a useful way to gather a variety of information from a big number of people, also known as respondents. A closed-ended questionnaire used by the researcher to gather information from the respondents. There are four sections in the questionnaire. Items in Section A asked for demographic information and educational background. A 4-item questionnaire on monitoring and evaluation and the reliability of financial statements was part of Section B. (Strongly agree to strongly disagree) on a scale of 1 to 5. On a 5-point Likert scale (vehemently Agree to vehemently Disagree), Section C had 4 items for assessing risk assessment and veracity of financial statements. Internal auditing and the reliability of financial statements will be covered in Section D. It included four items with a Likert scale score of 1 to 5 (Strongly Agree to Strongly Disagree). To ascertain the level and strength of association between the variables in the study setting, it became simple to evaluate, compare, characterize, and quantify the data collected via the questionnaires.

**Data Quality Control**

**Validity of the Instrument**

Validity describes how correctly and broadly the findings of a study may be applied to other populations. It refers to how well the research tools capture the data they are designed to capture [11]. The researcher created tools that answered the study's objectives and research questions in order to guarantee the validity of the instruments. Senior lecturers from Kampala International University evaluated the validity of the tool. This had to guarantee that the researcher maintained the higher quality of the research equipment that would be capable of providing relevant data for research. To analyze the connection of internal control systems and the reliability of the financial statements of SACCOs; in the case of KYAPs, these people requested to comment regarding whether the items in the instrument are legitimate. Saratanko, [12] defined validity as the extent to which conclusions drawn from data analysis accurately reflected the phenomenon being studied. The content validity index (CVI) was determined by using the Cronbach Alpha algorithm. This allowed CVI to range from 0.7 [13] to above. CVI guaranteed the following:

$$CVI = \frac{\text{Number of relevant Items in the questionnaire}}{\text{Total number of items in the questionnaire}}$$

$$CVI = \frac{20}{23} = 0.869$$

$$CVI = 0.87$$

**Reliability of the Instrument**

Reliability of instruments describes a situation where an instrument produces more or less comparable findings when it is used to several respondents. Results are consistent, in other words. Therefore, the investigator shall employ test pre-test methodology to examine the uniformity of instruments before deciding whether or not to use them for data collection. The researcher verified the dependability of the data-gathering equipment even though the tools were determined to be genuine. The Cronbach's alpha coefficient, which is available in SPSS, was used to evaluate the instrument's dependability.

**Table 3: Reliability Statistics**

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .886             | 23         |

**Data Gathering Procedures**

*Before the questionnaires were given out:* The Directorate of Post Graduate Studies and Research provided a transmittal letter so that the researcher could ask the SACCO administration for permission to undertake the study. The questionnaires were prepared by the researcher for distribution reasons. To ensure consistency when distributing the questionnaires, the research assistants were chosen and instructed on the sampling and data collection techniques. *During the administration of the questionnaires:* The respondents were asked to answer honestly and not leave any questions unanswered by the researcher and his research assistants. In a brief conversation with the respondents, the researcher and research assistants outlined the goals and topics of the study. All returned questionnaires were examined upon retrieval to ensure that they had all been answered. All COVID-19 recommendations as stated by the Ministry of Health were followed. *After the questionnaires were given out:* The Statistical Package for Social Sciences (SPSS) was used to analyze the completed surveys' data after being encoded.

**Data Analysis**

Data analysis, as to [14], is the process of using logic to comprehend the data that has been obtained to identify recurring patterns and condense the pertinent information learned during the study. Data analysis was guided by the research goals and objectives as well as the measurement of the data gathered to find patterns in the data about

the selected variables. Given that both qualitative and quantitative data were obtained, a variety of tools were used. To comprehend the relationship between each independent variable and the dependent variable of the qualitative information that was determined by using the Likert Scale, Pearson's linear correlation coefficient was employed. Data about the first three study objectives were analyzed using descriptive statistics (mean and item analysis). Utilizing the Likert scale helped with the interpretation. According to [15], the Likert scale is frequently employed in descriptive statistics for the examination of attitudinal and personality data. Hypothesis were tested at 0.05 level of significance using the Pearson linear correlation coefficient and regression analysis. According to [16], two variables were deemed correlated when their respective data sets are related to one another. Thus, [17] noted that regression analysis be used to determine if an independent variable should be taken into account when explaining variation in a dependent variable. Descriptive analysis was only used by the researcher, frequency tables, means and standard deviation, Pearson's linear correlation coefficient, and regression are a few examples.

### Ethical Considerations

Throughout the entire study, the researcher upholds research ethics. Informed consent was obtained, confidentiality was maintained, risks and benefits were balanced, integrity was maintained, and respondents' rights were respected to achieve this [18].

**Informed Consent:** The school administration was given a letter from the DPGSR. The relevant SACCO employees involved in the study were asked for their permission. There was no requirement for participation in this study. The respondents received enough information on the study's processes, as well as information about what the study is trying to accomplish, how long it took them to participate, and what they may expect to gain from it. The respondent received a guarantee from the researcher that no third party was given access to their information without their permission.

**Privacy and Confidentiality:** The researcher promised the participants that all data about their personal lives shall be held with the utmost confidence and that any data gathered regarding their identities or personalities were only utilized for academic purposes even though they received an introductory letter at the beginning explaining that the data was only used for academic purposes and remain confidential. To do this, a note advising participants not to write their identities on the survey was attached to the questionnaire.

**Integrity:** The investigator upheld trustworthiness by making sure that the information presentation, analysis, and clarification are firmly centered on the information obtained, and integrity in the research was ensured to ensure that the respondents are handled humanely. By making sure that the questioning and distribution of questionnaires take place during the appropriate period, the rights of the respondents were respected.

**Anonymity:** All study participants had the option to remain anonymous, and this work did not reveal any information about them. Data that is classified was handled carefully and used only for educational purposes. This information was provided in writing and positioned on top of the survey. Knowing the significance of respecting human decency the publication of classified information in the investigation shall be problematic ethically, especially when it relates to audit findings. The researcher cited and referenced the writers who were cited in this study. The researcher operated by acknowledged research standards. To confirm scientific validity, the research adhered to all sequential processes involved in research. When choosing participants, justice was guaranteed. Thus, using suitable sample techniques and methods, this was accomplished. The results of this investigation were presented broadly. The researcher followed standard operating procedures to avoid the spread of COVID 19 during the process of interacting with the respondents. The researcher always wears a mask, carry sanitizer with him and ensure social distance during the process of interacting with the respondents.

### Regression Equation

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$$

Where:

Y = Credibility of Financial statements

X<sub>1</sub> = Monitoring and Evaluation

X<sub>2</sub> = Risk assessment

X<sub>3</sub> = Internal Audit

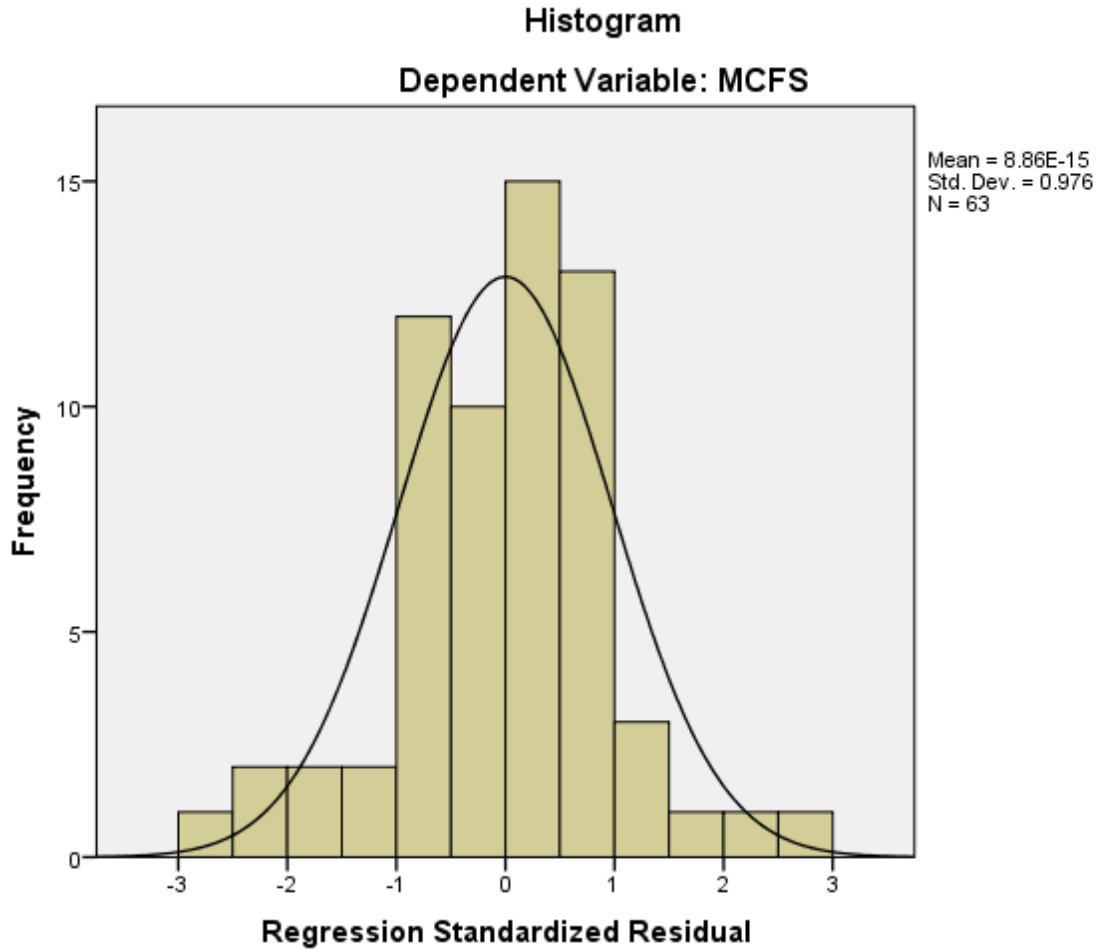
B<sub>0</sub> = Coefficient of the independents

e = Margin of error (5%)

### Assumptions for Regression Analysis

#### Testing for Normality using Histograms

Peat and Barton, [19] argue that the histogram plots the observed values against their frequency, which provides visual assessment of the normality of distribution.



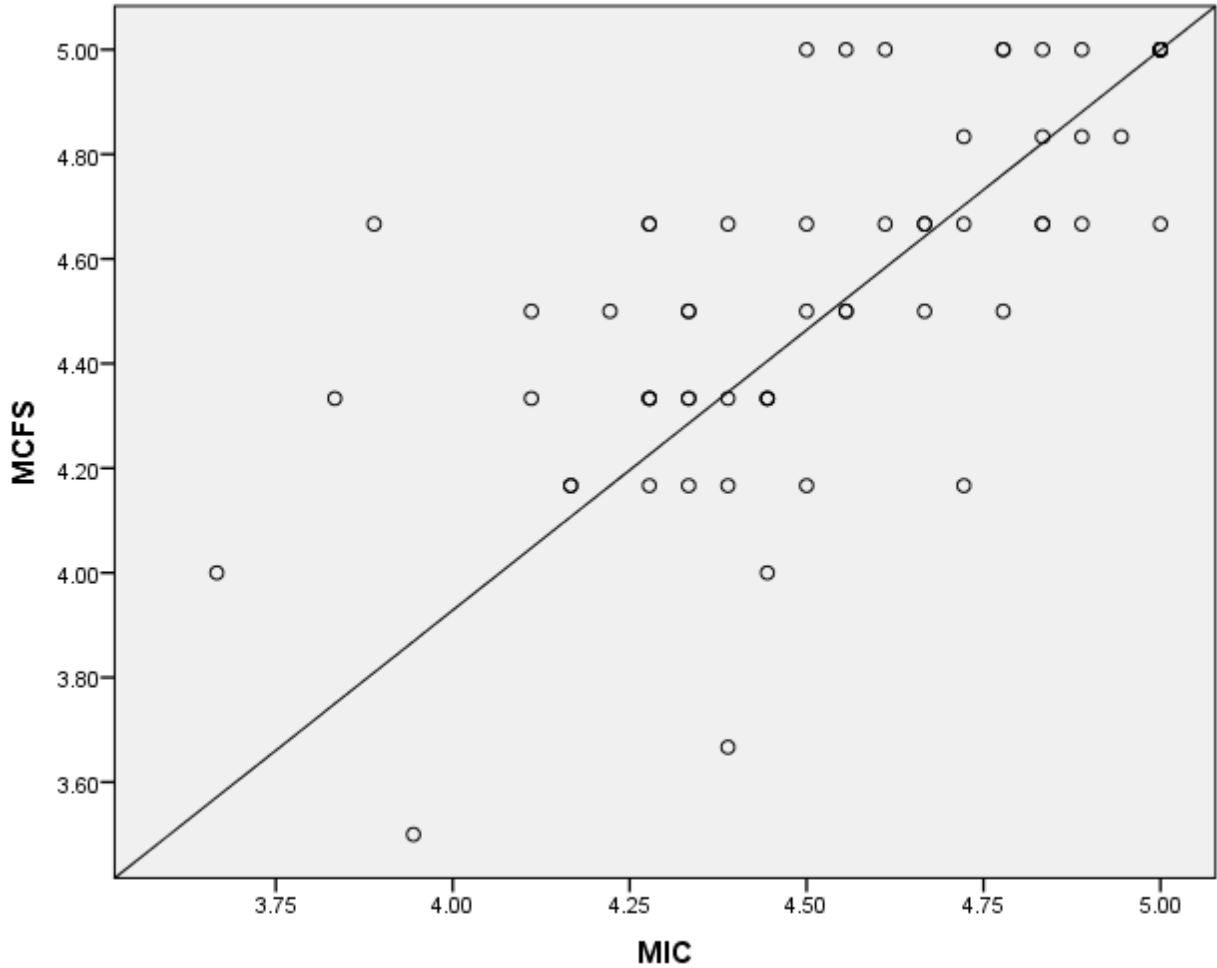
**Figure 1: Testing for Normality using Histograms**

#### Linearity Test

The assumption of Linearity was done in order to test the relation between the independent variables and the dependent variable. It assumes that there is a straight-line relationship between the two variables.

#### Scatter Plots

The condition is that if one variable is not normally distributed then the scatter plot will not be oval shaped. The linearity between MIC and MCFS was tested using scatter diagrams as



**Figure 2: The linearity between MIC and MCFS**

**Multi-collinearity Tests**

This study therefore conducted multi-collinearity test among the constructs of the independent variable (Monitoring and Evaluation, Risk Assessment and Internal Audit) using Variation Inflation Factor (VIF) methods to identify collinearity as observed by [9]. The cut-off is that VIF above 10 indicates the possibility of collinearity.

**Table 4: Collinearity Diagnostics**

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions |     |     |     |
|-------|-----------|------------|-----------------|----------------------|-----|-----|-----|
|       |           |            |                 | (Constant)           | MME | MRA | MIA |
| 1     | 1         | 3.989      | 1.000           | .00                  | .00 | .00 | .00 |
|       | 2         | .007       | 24.140          | .10                  | .30 | .14 | .05 |
|       | 3         | .003       | 35.245          | .81                  | .69 | .03 | .00 |
|       | 4         | .001       | 54.386          | .09                  | .00 | .83 | .94 |

a. Dependent Variable: MCFS

The results obtained from the collinearity test indicate that the VIF values ranging from 0.00 to .94 which were far below the cut-off point of 10. The results imply that there is no multi collinearity among the constructs of the independent variable. Since VIF are far less than 10.

## RESULTS

### Demographic Characteristics of Respondents

#### Gender Characteristics of Respondents

**Table 5: Demographic Description of the Sample by Gender**

| Gender       | Frequency | Percentage   |
|--------------|-----------|--------------|
| Male         | 47        | 74.6%        |
| Female       | 16        | 25.4%        |
| <b>Total</b> | <b>63</b> | <b>100.0</b> |

The study included 63 respondents, of whom 74.6% were men and 25.4% were women. This indicates that the respondents were fairly balanced in terms of gender as in Table 5.

#### Distribution of Respondents by Age

**Table 6: Distribution of Respondents by Age Group**

| Age group      | Frequency | Percent    |
|----------------|-----------|------------|
| Below 20 Years | 0         | 0          |
| 20-29 Years    | 6         | 9.5%       |
| 30-39 Years    | 38        | 60.3%      |
| 40-49 Years    | 16        | 25.4%      |
| Above 50 years | 3         | 4.8%       |
| <b>Total</b>   | <b>63</b> | <b>100</b> |

Source: Primary data, 2022

Table 6, the majority of respondents (60.3%) are in the 30- to 39-year-old age bracket, followed by 40 to 49 years (25.4%) and those aged 20 to 29 (9.5%) and over 50 (4.8%). This indicates that the vast majority of respondents are of an adult age and hence qualified to offer a reliable evaluation of the SACCO's financial accounts. **Respondents**

#### Level of Education

**Table 7: Showing the Distribution of Respondents by Level of Education**

| Level of education | Frequency | Percent      |
|--------------------|-----------|--------------|
| PhD                | 0         | 0            |
| Masters            | 6         | 9.5%         |
| Bachelor's Degree  | 32        | 50.8%        |
| Diploma            | 25        | 39.7         |
| A level            | 0         | 0            |
| O' level           | 0         | 0            |
| Primary            | 0         | 0            |
| <b>Total</b>       | <b>63</b> | <b>100.0</b> |

Source: Primary data, 2022

Findings revealed that respondents with bachelor's degree were higher (50.8%) followed by diploma holders (39.7%) while master's degree holders were the least among the surveyed respondents (9.5%) showing that the respondents were representative of better levels of education and able to understand and interpret the questionnaires correctly and give reliable data.

#### Years of Service of Respondent in the SACCO

**Table 8: Distribution of Respondents by Years of Service with the SACCO**

| Years of service | Frequency | Percent      |
|------------------|-----------|--------------|
| 1-5 years        | 5         | 7.9%         |
| 6-10 Years       | 35        | 55.6%        |
| 11-15 Years      | 23        | 36.5%        |
| 16-20 years      | 0         | 0            |
| 21 and above     | 0         | 0            |
| <b>Total</b>     | <b>63</b> | <b>100.0</b> |

The majority of the respondents, (55.6%) have work experience of 6-10 years, while (36.5%) have work experience of 11-15 years and (7.9%) have experience of 1-5 years. This implied that the respondents had experience in the operations of the Sacco.

#### Empirical Findings per the objective

Results are reported in this subsection in connection to the stated objectives using means, standard deviation, and correlation coefficients.



**Analysis of the relationship Between Monitoring and Evaluation and Credibility of Financial Statements**

**Table 9: Respondents Views on Monitoring and Evaluation**

| Statements measuring monitoring and evaluation   | SA   | A    | N    | D    | SD   | Mean | S.D  |
|--|------|------|------|------|------|------|------|
| KYAPS has put in place acceptable accountability standards   | 14.9 | 69.3 | 3.0  | 11.8 | 1.0  | 3.84 | 0.87 |
| KYAPS adheres to accountability procedures   | 10.9 | 73.2 | 4.0  | 11.9 | 0.0  | 3.83 | 0.78 |
| There is compliance to oversight institutions  | 26.0 | 56.0 | 4.0  | 12.0 | 2.0  | 3.92 | 0.98 |
| KYAPS achieve its set annual targets   | 19.8 | 50.5 | 7.9  | 21.8 | 0.0  | 3.68 | 1.03 |
| KYAPS is rated high in performance in the annual performance assessment  | 11.8 | 57.4 | 4.0  | 22.8 | 4.0  | 3.50 | 1.09 |
| There is increased sanctions by MFI and bank of Uganda over accountability                                     | 8.0  | 39.6 | 5.9  | 38.6 | 7.9  | 3.01 | 1.20 |
| Audit department prepares and submit financial reports to management as provided for in the Public Finance Act | 16.8 | 40.6 | 5.9  | 33.7 | 3.0  | 3.35 | 1.20 |
| KYAPS adheres to annual report stipulations and other policy and regulatory framework                          | 12.9 | 36.6 | 8.9  | 36.6 | 5.0  | 3.16 | 1.20 |
| Information management in KYAPS contributes to transparency  | 17.8 | 51.5 | 11.8 | 14.9 | 4.0  | 3.64 | 1.06 |
| Decisions are made basing on monitoring reports  | 22.8 | 47.5 | 12.8 | 14.9 | 2.0  | 3.74 | 1.03 |
| KYAPS takes proactive stance when it comes to engaging with external stakeholders                              | 8.0  | 27.0 | 16.0 | 32.0 | 17.0 | 2.77 | 1.25 |
| M&E information are necessarily used for accountability purposes   | 12.0 | 53.0 | 10.0 | 20.0 | 5.0  | 3.47 | 1.10 |
| I feel part of management processes and contribute in good bank performance                                    | 6.9  | 46.5 | 14.9 | 24.8 | 6.9  | 3.22 | 1.11 |
| Staff understand the role of M&E in KYAPS  | 10.9 | 50.5 | 15.8 | 19.8 | 3.0  | 3.47 | 1.03 |
| I understand the mission, vision and core values of KYAPS  | 14.9 | 65.2 | 11.9 | 5.0  | 3.0  | 3.84 | 0.85 |
| KYAPS takes M&E as a critical management tool  | 17.8 | 54.5 | 6.9  | 17.8 | 3.0  | 3.66 | 0.93 |
| M&E function in KYAPS is well located and adequately facilitated   | 8.0  | 27.0 | 16.0 | 32.0 | 17.0 | 2.77 | 1.25 |
| M&E component adds value to my work since it produces useful management tools and information                  | 12.0 | 53.0 | 10.0 | 20.0 | 5.0  | 3.47 | 1.10 |
| M&E component is sufficiently integrated into the institutional arrangements of KYAPS                          | 6.9  | 46.5 | 14.9 | 24.8 | 6.9  | 3.22 | 1.11 |
| Average mean   |      |      |      |      |      | 3.45 |      |

Source: Primary data, 2022

From Table 9, results revealed that when the respondents were asked whether there are acceptable accountability standards in Kyamuhunga Peoples SACCO, 84.2% of respondents agreed, while only 3.0% were unsure and 12.8% disagreed. Few people have yet to grasp the elements of appropriate accountability standards, as seen by the small percentage of respondents who disagreed. The general manager indicated in an interview response that;

*“There is need to explain to all members of Kyamuhunga Peoples Sacco to enable them appreciate and understand the acceptable accountability standards in the Sacco under monitoring and evaluation”*

In relation to whether KYAPS adheres to accountability procedures, 84.1% of respondents said they agreed, while 4% were unsure and 11.9% disagreed. Some respondents might have differed due to a misunderstanding of the monitoring and evaluation team responsible for applying these procedures. This was evidenced by some of the respondents in the management who were not sure whether they were part of monitoring and evaluation team. Considering the issue of whether there is compliance to oversight institutions, 82.0% of respondents agreed, with only 4.0% disagreeing and 14% being unsure. Therefore, the majority of those surveyed (82.0%) concurred that compliance to oversight institutions is strictly adhered to which means that KYAPS is more compliant to oversight institutions in its operations. While on the issue of whether KYAPS achieves its set annual targets, the majority, 70.3% of the participants agreed, with 7.9% unsure and 21.8% disagreeing. This implies that KYAPS in its monitoring and evaluation contributes greatly to the SACCO performance in terms of meeting and achieving its targets indicating that credibility of its financial statements.

On the issue of whether KYAPS is rated high in performance in the annual performance assessment, the majority, 69.2% agreed, while 26.8% disagreed with only 4% of the respondents were undecided. The level of performance changes in the different branches and sections of the Sacco; this was supported by one of the management members in the interview responses that:

*while in some sections like credit the Sacco performs well, it does not perform well in savings.*

Regarding the question of whether MFI and the Bank of Uganda have tightened their accountability sanctions, 47.6% of respondents agreed that MFI and the Bank of Uganda should impose tougher punishments to ensure accountability, with only 5.9% disagreeing and 46.5% disagreeing. This result demonstrates how greatly the employees' levels of awareness vary depending on their professional backgrounds. Only 5.9% were unsure, 5.9% were indecisive, and 36.7% disagreed with the statement that the audit department produces and presents financial reports to management in accordance with the Public Finance Act. The majority, 57.4%, agreed. The large percentage of respondents who disagreed could be attributed to the SACCO's financial reports being difficult to get. Concerning the question of whether KYAPS adheres to annual report stipulations and other policy and regulatory framework, only 8.9% of respondents were unsure, while 41.5% disagreed and 49.5% agreed. The diverse nature of the reactions, demonstrates that to some extent the SACCO adheres to annual report stipulations and regulatory framework. On the issue of whether Information management in KYAPS contributes to transparency, 18.9% disagreed, 11.8% were unsure, and 69.3% were in agreement. This means that the information management greatly contributes to transparency in the SACCO. On the issue of whether decisions are made basing on monitoring reports, the majority, 70.3% agreed, while 12.8% were undecided and 16.9% disagreed. The majority of the respondents, therefore agreed implying that decisions in KYAPS are made basing on the monitoring and evaluation reports. On the issue of whether KYAPS takes proactive stance when it comes to engaging with external stakeholders, 35.0% agreed, while 16.0% were undecided and 49.0% disagreed. This indicates that most majority of the staff are not sure whether KYAPS engages the external stakeholders yet it is an important element towards Sacco performance. On the issue of whether M&E information are necessarily used for accountability purposes the majority, 65.0% agreed, while 10.0% were undecided and 25.0% disagreed. This finding shows that even when monitoring and evaluation information is used for accountability purposes, a significant number of people do not agree to it, an indicator that it is not properly done.

On the issue of whether employees feel part of management processes and contribute to good Sacco performance, 53.4% agreed, while 14.9% were undecided and 31.7% disagreed. This finding shows the varying perception of the contribution of the management processes which means that these processes need to be clear to all the employees. On the issue of whether Staff understand the role of M&E in KYAP, 61.4% agreed, while only 15.8% were undecided and 22.8% disagreed. The big number of respondents who were both undecided and disagreeing shows that they do not understand the role M&E in the SACCO. On the issue of whether employees understand the mission, vision and core values of KYAPS, the majority, 80.1% agreed, while 11.9% were undecided and 8.0% disagreed. This implies that the employees need to be sensitized about the mission, vision and core values of the Sacco. On the issue of whether KYAPS takes M&E as a critical management tool, 72.3% agreed, while 6.9% were undecided and only 20.8% disagreed. This was in line with the finance and administration manager's response who commented that;

*"Monitoring and evaluation have been so helpful in managing the Sacco business and dealing properly with our customers"*

On the issue of whether M&E function in KYAPS is well located and adequately facilitated 35% agreed, while only 16% were undecided and 49% disagreed. This implies that M&E function is an important element towards the performance of the SACCO. In line with the construct whether M&E component adds value to my work since it produces useful management tools and information, 65% agreed, while only 10% were undecided and 25% disagreed. This implies that M&E component plays a great role in improving the management of the Sacco due to its valuable inputs in form of tolls and information. Basing on the construct whether M&E component is sufficiently integrated into the institutional arrangements of KYAPS, it was found out that 53.4% agreed, while only 14.9% were undecided and 31.7% disagreed. This means that monitoring and evaluation is not yet properly integrated into the Sacco activities yet it is a great contributor towards its performance.

**Analysis of the Relationship Between Risk Assessment and Credibility of Financial Statements**

**Table 10: Respondents views on risk Assessment**

| Statements measuring risk assessment   | SA   | A    | UD   | D    | SD   | Mea  | S.D  |
|--|------|------|------|------|------|------|------|
| Management has defined appropriate objectives for the SACCO.   | 20.8 | 60.4 | 3.0  | 15.8 | 0.0  | 3.86 | 0.93 |
| Management identifies risks that affect the achievement of the objectives.                               | 9.8  | 62.4 | 5.0  | 18.8 | 4.0  | 3.55 | 1.03 |
| Management has criteria for the ascertainment of which fraud-related risk to the SACCO is most critical. | 10.9 | 51.5 | 19.8 | 14.9 | 3.0  | 3.52 | 0.98 |
| Management has put in place a mechanism for the mitigation of critical risks that may result from fraud. | 15.8 | 40.6 | 9.9  | 30.7 | 3.0  | 3.36 | 1.16 |
| KYAPS has Surveillance officers to identify risk areas.  | 12.9 | 62.3 | 9.9  | 12.9 | 2.0  | 3.71 | 0.92 |
| KYAPS has a risk management policy   | 12.9 | 71.3 | 5.9  | 7.9  | 2.0  | 3.85 | 0.82 |
| Credit risks are studied before disbursing loans to clients  | 27.6 | 51.5 | 5.0  | 13.9 | 2.0  | 3.89 | 1.03 |
| KYAPS has system that is used to compute the impact of uncertainties                                     | 36.0 | 57.0 | 2.0  | 4.0  | 1.0  | 4.23 | 0.76 |
| KYAPS has a mechanism to manager operational risks   | 19.8 | 51.5 | 18.8 | 7.9  | 2.0  | 3.79 | 0.92 |
| Management evaluates risks that might affect the achievements of the SACCO goals.                        | 10.8 | 31.7 | 14.9 | 32.7 | 9.9  | 3.01 | 1.22 |
| KYAPS has invested in automated strategic risk management tools  | 27.7 | 58.4 | 7.9  | 2.0  | 4.0  | 4.04 | 0.89 |
| KYAPS trains staff and holds seminars on risks management  | 14.9 | 37.6 | 5.9  | 24.8 | 16.8 | 3.09 | 1.38 |
| KYAPS has strengthened its risk governance   | 10.8 | 37.7 | 11.8 | 35.7 | 4.0  | 3.16 | 1.15 |
| Average mean   |      |      |      |      |      | 4.70 |      |

Table 10 shows a summary of the findings from the statements measuring risk assessment. Below the researcher presents the narrations and interpretations.

On the variable “management has defined appropriate objectives for the SACCO”, 81.2% agreed, while only 3.0% were undecided and 15.8% disagreed. The majority of the respondents (81.2%) therefore agreed that management has defined appropriate objectives for SACCO as suggested by the General manager of Sacco who said; *My role is to ensure that Sacco operates effectively and follows the set objectives.* On the variable “Management identifies risks that affect the achievement of the objectives.”, 72.2% agreed, while only 5.0% were undecided and 22.8% disagreed. These results imply that management of the Sacco is cautious of the risks that may affect the SACCOs performance. While on the variable “Management has criteria for the ascertainment of which fraud-related risk to the SACCO is most critical.”, 62.4% agreed, while 19.8% were undecided and 17.9% disagreed. This means that fraud-related risks are properly managed and controlled in the Sacco. About whether management has put in place a mechanism for the mitigation of critical risks that may result from fraud.”, 56.4% agreed, while only 9.9% were undecided and 33.7% disagreed. This means that the Sacco tries to mitigate risks that may come as a result of fraud. Basing on whether “KYAPS has Surveillance officers to identify risk areas”, 75.2% agreed, while only 9.9% were undecided and 14.9% disagreed. These results mean that the SACCOs assesses and manages the risks properly to ensure credible financial statements and performance. On the variable whether KYAPS has a risk management policy”, 84.2% agreed, while only 5.9% were undecided and 9.9% disagreed. This finding shows that adequate risk control mechanisms are implemented which points to credibility of financial statements. On the variable “Credit risks are studied before disbursing loans to clients”, 93% agreed, while only 2.0% were undecided and 5.0% disagreed. The majority of the respondents therefore agreed that credit risks are studied properly before disbursing loans which strengthens credibility if the financial statements. On the variable whether KYAPS has system that is used to compute the impact of uncertainties”, 71.3% agreed, while only 18.8% were undecided and

9.9% disagreed. This means that the Sacco is able to detect and know the extent of effect of uncertainties before they affect the operations of the SACCO.

Basing on whether KYAPS has a mechanism to manager operational risks, results indicated that 93.0% agreed, while only 2.0% were undecided and only 5.0% disagreed. This means that risks are properly managed to ensure smooth operations of the SACCO. Referring to whether KYAPS Management evaluates risks that might affect the achievements of the SACCO goals.", 42.5% agreed, while 14.9% were undecided and only 42.6% disagreed. The majority of the respondents therefore agreed that management of the Sacco assesses the risks that may affect the Sacco and are mitigated properly to ensure credible financial statements. While on the construct on the variable whether KYAPS has invested in automated strategic risk management tools, 86.1% agreed, while only 7.9% were undecided, 6% disagreed. The results here show that majority of respondents agreed which means that KYAPS is very cautious about risks that affect the Sacco's performance to the extent that it has in place the risk management tools.

In relation to the construct that KYAPS trains staff and holds seminars on risks management, 52.5% agreed, while 5.9% were undecided and 41.6% disagreed. This finding indicates that the respondents are almost equally divided on this aspect implying that although the seminars are said to be conducted all members are not involved which means that the seminars on risk management are not properly done in KYAPS. Referring on the variable that KYAPS has strengthened its risk governance, 48.5% agreed, while 11.8% were undecided and 39.7% disagreed. This finding means that even if the Sacco has strengthened its risk governance, it is not properly implemented as the respondents had mixed feelings about it.

### Internal Audit

Internal audit which is the third aspect of internal control systems was studied using seven items. The results were as presented in Table 11

**Table 11: Descriptive statistics on internal audit**

| Items  | SA   | A    | N   | D    | SD   | Mean |
|--|------|------|-----|------|------|------|
| Internal auditors have skills  | 52.2 | 30.8 | -   | 6.2  | 10.8 | 3.89 |
| Internal auditors are confident  | 50.8 | 33.8 | -   | 6.2  | 9.2  | 3.78 |
| Internal auditors implement accounting standards when report               | 46.2 | 21.5 | 3.1 | 9.2  | 20   | 3.63 |
| Internal audit is very sound   | 53.8 | 24.6 | 3.1 | 7.7  | 12.3 | 3.82 |
| Internal audit tracks management of finances                               | 55.4 | 36.9 | -   | 4.6  | 3.1  | 3.79 |
| Internal audit monitors the daily records of financial transactions        | 6.2  | 9.2  | -   | 50.8 | 33.8 | 1.65 |
| There is an independent internal audit committee                           | 54.7 | 16.8 | 2.2 | 12.6 | 13.7 | 4.13 |
| There is free minded Internal audit management                             | 52.6 | 33.7 | -   | 10.6 | 3.1  | 3.96 |
| The internal audit unit has authority to access the documents as they plan | 47.5 | 33.7 | -   | 12.6 | 6.2  | 3.65 |
| There is independence on preparation of internal audit action plan         | 56.9 | 14.7 | 4.2 | 10.5 | 13.7 | 3.68 |
| Average mean   |      |      |     |      |      | 3.5  |

**Source: Primary Data 2022**

The results in Table 11 about whether internal auditors have skills, cumulatively the majority percentage (83%) of the respondents agreed while 17% disagreed. It had a mean equal to 3.89 close to code 4 which on the scale used corresponded with agreement, which suggested internal audit as an internal control system is properly done since the respondents agreed that the internal auditors have the skills and do their work perfectly. The findings also revealed that internal auditors are confident because the majority percentage (84.6%) of the respondents agreed with the statement, while 15.4% disagreed with the statement and the results were confirmed by the mean equal to 3.78 which corresponds with the agreement on the Linkert scale. This means that the auditors know what they are doing in ensuring credibility of financial statements of the Sacco. Also, in relation to the construct that Internal auditors implement accounting standards when reporting, majority percentage (67.7%) of the respondents agreed with the high mean equal to 3.63, while 29.2% of them disagreed and 3.1% of the respondents were neutral. This implies that the findings suggested internal audit ensures that the quality financial does not deteriorate. The findings further indicated that internal audit is the most efficient approach in ensuring credible financial statements because the majority percentage (78.4%) agreed that the statement that internal audit is sound while 20% disagreed. 3.1% unaware This was supported by the mean equal to 3.82 which implies that a sound internal audit is necessary to ensure credibility of financial statements.

The results in Table 11 about whether Internal audit tracks management of finances, indicated that majority of the respondents (92.3%) agreed while 7.7% disagreed and with a mean equal to 3.79 close to code 4 which on the scale

used corresponded with agreement, the results suggested that internal audit is necessary for purposes of ensuring that credible financial statements are prepared. The findings also revealed credibility of financial statements is facilitated by the fact that internal audit monitors the daily records of financial transactions because the majority percentage (84.6%) of the respondents disagreed with the statement, while 15.4% agreed with the statement and the results were confirmed by the mean equal to 1.65 which corresponds with the disagreement on the Linkert scale. This means that much as internal audit is carried out in KYAPS, it is not done on a daily basis on records and transactions. Furthermore, considering the variable that there is an independent internal audit committee in KYAPS, majority of the respondents (71.5%) agreed while 26.3% of them disagreed and 2.2% of the respondents were neutral and this had a mean equal to 4.13, the findings suggested that internal audit committee is significant for ensuring credibility of financial statements.

In relation the construct of free minded internal audit management, majority of the respondents (86.3%) agreed while 13.7% disagreed with the statement and this was supported by the mean equal to 3.96. This finding indicated that free minded internal audit management achieves desired credibility of financial statements. From the results in Table 4.11 on whether internal audit unit has authority to access the documents as they plan, majority percentage (81.2%) of the respondents agreed while 18.8% disagreed and with the mean equal to 3.65 close to code 4 which on the scale used corresponded with agreement, suggesting that when internal audit unit has authority to access the documents as they plan it can help the Sacco produce credible financial statements.

The findings also revealed that independence on preparation of internal audit action plan enhances credibility of financial statements because the majority percentage (71.6%) of the respondents agreed with the statement, while 24.2% disagreed and 4.2% of them were neutral with the statement and the results were confirmed by the mean equal to 3.68 which corresponds with the agreement on the Linkert scale. During interviews with SACCO managers, they were asked to tell whether independence on preparation of internal audit action plan enhances credibility of financial statements. To this question, one manager said,

*“I am impressed with sometimes when the Sacco financial statements are presented to the external auditors and they find them true and fair as an indicator of their credibility”.* This implies that independence of internal audit plays a great role in ensuring credibility of financial statements.

*“With the experience I have, I have realized that internal audit reduces the fraudulent activities which in turn boosts credibility of financial statements”.*

From the views above, it can be deduced that there is improvement in the internal audit section in KYAPS. These interview responses support the descriptive statistic results which indicated that loan internal audit is properly done in KYAPS.

#### **Analysis of Findings on Credibility of Financial Statements in Kyamuhunga Peoples SACCO**

Credibility of financial statements was measured using nine indicators and Table 4.14 presents a summary of the findings on statements measuring credibility of financial statements of Kyamuhunga Peoples SACCO.

**Table 12: Respondents views on credibility of financial statements of Kyamuhunga Peoples’ SACCO**

| <b>Credibility of financial statements</b>  | <b>SA</b> | <b>A</b> | <b>UD</b> | <b>D</b> | <b>SD</b> | <b>Mean</b> |
|---|-----------|----------|-----------|----------|-----------|-------------|
| KYAPs financial statements adequately identify the receipt and expenditures of finances                             | 35.0      | 46.0     | 13.0      | 3.0      | 3.0       | 4.11        |
| There is timely submission of activity reports in KYAPs   | 21.0      | 57.0     | 15.0      | 4.0      | 3.0       | 4.08        |
| KYAPs financial statements comply with all the financial reporting rules and regulations.                           | 24.8      | 45.5     | 16.8      | 9.9      | 3.0       | 3.90        |
| Appropriate measures are taken to correct mistakes in operation of KYAPs accounting and financial reporting system. | 18.8      | 59.4     | 7.9       | 8.9      | 5.0       | 4.02        |
| KYAPs financial statements are independently audited by external auditors   | 32.7      | 50.5     | 8.9       | 5.9      | 2.0       | 4.06        |
| Management closely monitors the preparation financial statements and reports  | 21.8      | 36.6     | 16.8      | 16.8     | 7.9       | 3.33        |
| KYAPS financial statements present a true a fair view of the SACCOS’ operations                                     | 48.0      | 29.0     | 9.0       | 7.0      | 7.0       | 4.00        |
| KYAPs financial statements are reliable in decision making for the SACCO  | 37.6      | 28.7     | 15.8      | 2.0      | 15.8      | 3.55        |
| KYAPs financial statements inspire trust for the bank among the stakeholders  | 33.0      | 43.0     | 10.0      | 2.0      | 12.0      | 3.98        |
| <b>Average mean</b>   |           |          |           |          |           | <b>3.89</b> |

Source: Primary data (2022)

This section looks at the various variables of credibility of financial statements as shown in Table 12. On the variable that KYAPs financial statements adequately identify the receipts and expenditures of finances, majority of the respondents 81% agreed, while 13.0% were undecided and 6.0% disagreed with a mean of 4.11 which on the scale means agreement. This implies that the Sacco financial statements adequately identify the receipts and expenditures of the Sacco finances which is an indicator of credibility. On the variable that there is timely submission of activity reports in KYAPs, majority of the respondents 78.0% agreed, while 15.0% were undecided and 7.0% disagreed with a mean of 4.08. This finding means that activity reports in KYAPS are timely submitted which enhances credibility of the statements. On the variable that KYAPs financial statements comply with all the financial reporting rules and regulations, majority of the respondents 70.3% agreed, while 16.8% were undecided and 12.9% disagreed with a mean of 3.90. The majority of the respondents therefore agreed that KYAPs financial statements comply with all the financial reporting rules and regulations which means that they are credible. Considering the variable that appropriate measures are taken to correct mistakes in operation of KYAPs accounting and financial reporting system, majority of the respondents 78.2% agreed, while 7.9% were undecided and 13.9% disagreed with a mean of 4.02 which according to the scale corresponds with agreement. This means that financial statements of KYAPS are credible since appropriate measures are taken to correct mistakes in operation of KYAPs accounting and financial reporting system. In relation to the variable that KYAPs financial statements are independently audited by external auditors, majority of the respondents 83.2% agreed, while only 8.9% were undecided and 7.9% disagreed with a mean of 4.06 which according to the scale corresponds with agreement. This therefore that financial statements of KYAPS are credible since external audit is properly done and it's one of the pointers to the credibility of financial statements. More still basing on the variable that Management closely monitors the preparation financial statements and reports, 58.4% of the of the respondents agreed, while 16.8% were undecided, and 24.7% disagreed with a mean of 3.33 which according to the scale corresponds with neutrality. This therefore means that management fairly monitors the preparation of financial statements and reports which affects the credibility of financial statements.

Referring to the variable KYAPS financial statements present a true a fair view of the SACCOs' operations, majority of the respondents 77 % agreed, while only 9.0% were undecided and 14% disagreed with a mean of 4.00 which according to the scale corresponds with agreement. This finding means that financial statements of KYAPS are credible since they present a fair and true view of the Sacco's operations as supported by majority of the respondents. On the variable that KYAPs financial statements are reliable in decision making for the SACCO, majority of the respondents agreed 66.3% agreed, while 15.8% were undecided and 17.8% disagreed with a means of 3.55 which according to the scale is close to 4 meaning agreement. This means that financial statements are credible since they can be relied on to make decisions for the Sacco as supported by majority of the respondents. Basing on the variable that KYAPs financial statements inspire trust for the Sacco among the stakeholders, majority of the respondents 76% agreed, 10.0% were undecided and 14.0% disagreed with a mean of 3.98 which according to the scale corresponds with agreement. This means that the financial statements of KYAPS are credible since the shareholders can base on them to trust the SACCOs operations. This means that the financial statements of KYAPS are credible since they fulfill an element of trustworthiness which is an indicator of credibility.

## DISCUSSION

### Monitoring and Evaluation and Credibility of Financial Statements

Findings showed that there is an insignificant and positive relationship between monitoring and evaluation and the credibility of financial statements. These findings are in agreement with those of [20], who argued that, when properly monitored and assessed, internal control systems help to prevent resource wastage and provide a foundation for the efficient operation of all types of organizations. It generates trustworthy financial reports that assist stakeholders in reaching the right decision. They emphasized that internal control systems, monitoring, and assessment aid firms in lowering operational risk and enhancing the accuracy of financial statements in order to increase shareholder trust. More so the findings are in consonance with [21, 22] who argued that, in order to meet each set of internal control objectives and to achieve organizational performance, monitoring and evaluation are required to make sure that all administrative, operational, and financial tasks are completed on time and accurately. The primary goal of monitoring is to ascertain whether organizational members are performing or have performed their duties effectively and efficiently in accordance with the organization's policies. This can occasionally result in reliable financial statements. [23], discovered that the credibility of financial statements is influenced by the effectiveness of internal control performance over time as well as the quality of monitoring methods. Continuous monitoring operations and independent internal control evaluations, such as self-assessments, peer reviews, and internal audits, are used to ascertain it. Additional findings support those of [24], who examined the variables affecting the efficacy of a monitoring and evaluation system for the AMREF Kenya WASH program. The following goals served as the foundation for the research: determining the degree to which fund availability affects the effectiveness of the M&E system, evaluating the degree to which stakeholder

participation affects that effectiveness, and assessing the degree to which organizational leadership affects that effectiveness. The program theory, theory of change, and dynamic capacities theory served as the study's guiding principles. In order to address the research problem, the study used a descriptive survey research approach and 66 AMREF Kenya employees were the subject of the study. Means, standard deviations, percentages, and frequencies were used to assess the results before they were presented in tables. With correlation coefficients of 0.489, 0.565, and 0.736, respectively, it was discovered that the availability of finances, stakeholders' involvement, and organizational leadership were positively correlated with the M&E system's efficacy. By conducting a linear regression analysis, the degree of connection between the independent and dependent variables was determined. The coefficient of determination ( $R^2$ ) was 0.755. The findings also showed that while AMREF provides money for M&E activities and has a distinct budget set out for M&E, neither the money nor the M&E unit are autonomous. Stakeholder involvement occurs primarily at lower levels of activity, while it is insufficient at higher levels. Finally, it was determined that the effectiveness of the M&E system is significantly influenced by the leadership of the business. The majority of respondents, however, believed that the leaders were not doing enough to support and improve the M&E system's efficacy within the firm.

### **Risk Assessment and Credibility of Financial Statements**

Findings indicated that there a significant and positive relationship between risk assessment and credibility of financial statements. These findings are in agreement with those of [25] who conducted a study to determine the impact of risk-based audit on the operation of state-owned enterprises in Kenya's Ministry of East African Community, Labour, and Social Protection. The technique used was a descriptive study design. The study's sample consisted of 160 top executives from State businesses within the ministry. A census-style study was conducted. The study relied on primary information from self-administered questionnaires. The data were analyzed using descriptive statistics, which also included inferential statistics like regression and bivariate correlation. The study discovered that risk assessment, internal audit standards, the control environment, and the information system all had a favorable influence on the financial performance of state-owned businesses in Kenya.

The report suggests that in order to improve performance, management of state businesses should apply efficient risk-based audit processes. It also proposes that the management of Kenya's commercial state enterprises take charge of providing the internal audit departments of their organizations with sufficient funding so they can create efficient yearly risk-based audit plans. The study suggests that the management of state businesses adopt the International Auditing Standards (ISAs), which set the moral standards for internal audit staff, to improve the financial reporting of Kenyan state corporations. The main problem with the study was that it only used data acquired from one government ministry. The research might have been better understood if it had included a study of more ministries. Similar to this, future studies could concentrate on the private sector in order to draw similarities. The existing research, which shall be conducted in a financial institution and examine the impact of risk assessment on the credibility of financial statements, will be conducted in contrast to the last study, which was conducted in a government agency.

The development of trustworthy financial statements, in this scenario, is attainable at the highest levels when risks are detected, examined, and controlled inside the company as per [26] research. According to [27], the achievement of organizational credible financial statements requires a clear set of goals and objectives. Operational, financial, and compliance objectives should be the divisions used to classify departmental aims and objectives. Clearly stated goals and objectives for each major action should be part of the work unit's mission according to [28]. The financial performance of credit unions by [29] done in Jamaica was evaluated in connection to IT risk management, institution size, and financial performance. The theoretical underpinning of the study was the risk IT model from the Information Systems Audit and Control Association (ISACA). Data for this study came from audited financial accounts and a web-based poll. Thirteen credit unions in Jamaica's workforce, totaling 130 employees, took part in the study. A statistically significant association between IT risk management, institution size, and the financial performance of Jamaican credit unions was established by the results of the multiple regression tests,  $F(2, 99) = 46.861$ ,  $p = 0.000$ ,  $R^2 = .486$ . Institutional size was a statistically significant predictor of financial success ( $t = -.637$ ,  $p = .000$ ). Initiatives for IT risk management did not significantly affect financial performance ( $t = .139$ ,  $p = .074$ ). Findings from the research could result in more effective and efficient operations for Jamaican credit unions and an improvement in their financial performance, which could lead to positive social change through an increase in corporate social responsibility, dividend payments, and the provision of affordable goods and services for the more than 1 million members of Jamaican credit unions. This investigation will look at the connection between risk evaluation and the veracity of financial statements in a microfinance institution operating in a diverse geographical setting.

Furthermore, findings are in agreement with a study on risk management by [30], who found that it is just as crucial to an organization's internal control system as the reason it exists. In particular, the efficiency of internal controls as a risk management tool in enhancing bank performance was the focus of this study's examination of the implications of risk management. In particular, to evaluate the risk involved in providing banking services, to

investigate the validity of Intercontinental Bank's internal control systems as a risk management instrument, and to determine the performance impact of internal control as a risk management tool. The results demonstrated that the bank was successfully implementing all necessary internal control measures and that the control mechanisms were being closely monitored. Their weakest part, though, was the distribution of four resources to staff members so they could execute risky tasks like extending loans to consumers in the SME (small and medium-sized enterprise) sector. It was advised that the bank's risk management rules be revised frequently to prevent them from becoming obsolete over time. For all of the bank's departments and divisions to be able to complete their tasks without incurring unneeded risk, the bank must also make an effort to provide them with the appropriate amount of experienced and trained employees. The current study will analyze internal audits regarding the reliability of financial statements, whereas the prior study examined risk assessment in connection to financial performance.

### **Internal Audit and Credibility of Financial Statements**

Findings further showed that internal audit and the credibility of financial statements have a substantial favorable connection. These findings are in agreement with those of [31], who looked at how audit independence affected the accuracy of financial reports in the banking industry. Data were collected from four (4) banks that are listed on the Nigerian Stock Exchange and operate throughout the continent of Africa using an ex-post facto research design. Multivariate linear regression was used to analyze the data, which covered the 5-year period from 2014 to 2018. The results showed that the value relevance of the financial reports of the institutions under consideration was significantly impacted by audit independence. This might be inferred from the fact that the amount spent on audit fees had no appreciable impact on the reported earnings per share (a proxy for investors' reliance on financial reporting). More so, research reveals that the impact of audit independence on financial report timeliness is negligible. It was suggested that banks and other businesses alike should negotiate for reasonable audit fees that would ensure the engagement of an independent audit firm in order to boost the level of confidence in the reported financial statements and thereby create a high level of reliability on the financial reports. Managers are also urged to work independently and cooperatively with auditors to ensure the timely delivery of financial reports that could indicate dependability. More so they agree with [32], who emphasized the link between an organization's ability to reach its revenue targets and the effectiveness of its internal audit system. This will entail conducting routine reviews of the accuracy and integrity of financial and operational data, examining the safeguards put in place to protect assets, gauging the degree to which employees are abiding by management policies, procedures, and relevant laws and regulations, and assessing the effectiveness and efficiency with which management accomplishes organizational goals. Internal control systems are now typically implemented by businesses not just to comply with regulatory requirements but also to help monitor the proper execution of all management tasks. Institutions are also putting it a fact of responsibility to train, and sensitize their staff on how to utilize these internal control systems because their effectiveness rests on their users' competence and dependability, which results in production of reliable financial statements. All of these risk management practices should be used at all organizational levels and across all functions to guarantee that risks that could have an impact on the company's capacity to fulfill its goals are adequately avoided [33].

Further still finding are in agreement with those of [34] whose research evaluated the internal audit procedures and financial performance of Tanzanian banks, with CRDB Bank serving as the case study. According to the study's findings, 42 (51%) of the respondents strongly agreed that internal audit independence has a positive impact on the financial performance of CRDB Bank and other financial institutions, organizations, and microfinance institutions in Tanzania. The survey discovered that 43 (51%) of the participants strongly agreed that there is a correlation between the financial performance of CRDB bank and internal audit quality practices, and finally, the survey discovered that 44 (52%) of the respondents strongly agreed that Tanzanian banks' financial performance is influenced by their internal audit control systems. The organization's internal audit committees and internal audit management should be responsible to the internal audit department, and it should have sufficient power to encourage independence and have an impact on financial performance. To ensure that internal auditors have good supervision, expertise, and the latest in technology, banks' internal audit departments should maintain internal audit control systems. Internal auditors must improve their abilities and competence in order to maintain their professional standards. The link with internal audit and reliability of financial statements will be investigated in this study.

### **CONCLUSION**

The study's findings, there is a strong correlation with monitoring and evaluation and credibility of financial statements in KYAPS recommending progress in monitoring and evaluation leads to better credibility of financial statements as directed by the findings. The findings also demonstrated a strong correlation between risk assessment and Credibility of Financial Statements in KYAPS proposing that effective implementation of risk assessment outcomes into Credible Financial Statements. Therefore, the study came to the conclusion that internal



audit has a substantial favorable association with credibility of financial statements in KYAPS showing a positive change in Internal audit leading to attainment of credible financial statements.

### Recommendations

Most of the respondents concurred that monitoring and evaluation are present in KYAPS, the study emphasized their significance in influencing the credibility of financial statements. SACCO managers should therefore improve monitoring and evaluation to ensure improved accountability and, in turn, credible financial statements. Management places a strong emphasis on risk assessment to conduct business in a systematic and effective manner. The findings show that management at KYAPS has been following the established procedures in an effort to meet the goals of the SACCO, but more effective risk assessment strategies should be established to deter breaking the law and engaging in unethical behavior. These strategies need to be effectively shared through the right channels, such as official guidelines and conduct standards for the SACCO. Despite the fact that the rules are available to stakeholders, thus management should always follow them updated on any new internal controls developed to ensure that they are effectively implemented as they are the ones who will actually be putting the policies into practice. The report also advises management of KYAPS and other SACCOs to implement internal control measures in order to remove, minimize, or make up for risks and, in turn, stop misstatements before they happen while also protecting the SACCO's resources.

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