

## ABSTRACT

The internal control environment is the foundation of an effective system of internal control. Most of the well-publicized failures including not only Enron and WorldCom, but also the governance failures that led to the 2008 financial crisis were, at least in part, the result of weak control environments. In the absence of a demonstrably effective control environment, no level of “design and operating” effectiveness of controls within business and IT processes can provide meaningful assurance to stakeholders of the integrity of an organization’s internal control structure. The main objective of the study is to examine the relationship between internal control environment, organization size and financial performance of savings and credit co-operative societies in Western region, Kenya. Specifically, the study sought; to examine the influence of Ethical values on the financial performance of SACCOs in Western region, Kenya; to assess the influence of commitment to competence on the financial performance of SACCOs in Western region, Kenya; to evaluate the influence of management’s philosophy and operating style on the financial performance of SACCOs in Western region, Kenya; to establish the influence of organizational structure on the financial performance of SACCOs in Western region, Kenya and to examine the moderating influence of organization size on the relationship between internal control environment and financial performance of SACCOs in Western region, Kenya. The study was based on the Agency Theory. The study adopted a cross section research design using the quantitative approach. The target population was 177 senior members in nine licensed SACCOs operating in Western Region. A sample of 123 respondents was selected by use of stratified random sampling out of which a response rate of 110 was obtained. Data was collected with the aid of structured questionnaires. Validity of the research instruments was determined using expert judgment while Cronbach’s alpha coefficient was used to measure internal consistency with the alpha coefficient of above 0.976 thus considered reliable. Data was analyzed by use of descriptive and inferential statistics. Multiple regression and Pearson correlation were used for inferential statistics. Data was presented by use of tables and figures. The study found out that internal control environment constructs; organization structure, Ethical values, commitment to competence and management philosophy and operating style in that order have a positive and significant effect of financial performance of SACCOs. The study concluded that organization structure and Ethical values lead to more financial growth of SACCOs. Also the study concluded that organization size moderate the effect of the internal control environment and financial performance. The study thus recommended that for increase in financial performance of SACCOs, more resources should be diverted in expansion of SACCOs, putting up an elaborate and functioning organization structure and increasing the level of Ethical values within the SACCOs. This study may be relevant to SACCOs, policy makers and the academia because it provides elaborate internal control measures to improve SACCOs performance.