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Control Environment and Operational Efficiency in SACCOs: a case study of Butuuro Peoples' SACCO

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ABSTRACT

The study assessed the influence of control environment on the operational efficiency in SACCOs using a case study of Butuuro SACCO. The primary data collected from members of the Board, Supervisory Committee, Elders (who served on the Board and retired) and staff of the SACCO was collected using self-administered questionnaires framed on the Likert scale of 1 to 5. The sample of 54 respondents was selected using Yamane formula. Individual respondents in the study were selected using simple random sampling techniques. The reliability of data was achieved using the Cronbach Alpha which was established at 0.851 for the control environment and 0.704 for operational efficiency. Collected data was analyzed using inferential statistics with the aid of Statistical Package for Social Scientists (SPSS) version 20. The results revealed a significant positive relationship between control environment and operational efficiency (r=0.472, P=0.000), control environment explains 22% (R2 =0.22) of variance in operational efficiency, the beta value for control environment from the regression model was 0.472 at p< 0.03. The study concludes that control environment has a significant positive association with operational efficiency. The study recommends a strong and effective environment for improving the operational efficiency of SACCOs.

INTRODUCTION

SACCOs are vital in stabilizing the income of their members' households, allowing members to borrow funds to enhance their consumption or to purchase household items that they may not be able to afford right away and build capital that can be lent out at more favourable interest rates (Nickson Muhaya Kadagi et al., 2015). Today SACCOs empower low-income individuals, allowing them to express their needs while also improving their daily working and living conditions (Njenga & Jagongo, 2019; Sunday et al., 2010). SACCOs in Uganda face poor financial results, shown by low return on assets, insufficient liquidity, and high levels of risk in their loan portfolios (Kamukama & Natamba, 2013), remain the most essential players in providing financial services and have broader outreach than some other financial sectors. SACCOs don't have access to the lender of last resort compared to the commercial banks. This makes them prone to poor financial performance due to rise in liquidity

management risks (Nekesa, 2021). SACCOs encounter various challenges such as poor financial performance that is linked to inadequate investment decisions, ineffective risk management, and liquidity issues which have diminished creditworthiness and eroded members' confidence (Muheebwa, 2018).

The management of SACCOs must keep focusing on operational efficiency because higher efficiency leads to higher profitability (Kemboi, 2019). Operational efficiency can be measured in different ways. (Iletaach et al., 2024) used the operating expense ratio and net worth turnover ratio. Operating costs and operational efficiency are negatively related (Widyaningsih, 2016). Operational efficiency is the ability of the firm to offer products and services in the most cost-effective way and maintaining high quality (Kemboi, 2019; Widyaningsih, 2016). An organisation that is not operationally efficient will not achieve required return and will be impossible to survive difficult economic situations (Kemboi, 2019). Operational efficiency can be measured by ratios such as Total Asset Turnover (TAT), Fixed Asset Turnover (FAT), Equity Turnover (ET) and Expenditure to Revenue (Kemboi, 2019). In their study, (Iletaach et al., 2024) established operation efficiency of Deposit taking saccos (DTS) in Kenya using total operation expenses to total income and total income to core capital ratio it had a statistically positive significant relationship with financial performance of SACCOs.

Internal control environment: The Committee of Sponsoring Orgaisation on Tradeway Commission (COSO) model defines internal control as a process implemented by an organization's board, management, and staff, aimed to achieve operational efficiency, reliable financial reporting, and adherence to laws and regulations. Together, the COSO board develops guidelines and tools to support organizations in areas like risk management, internal control, and fraud prevention (Udeh, 2020). The framework, updated in 2013, is not legally mandated but is widely regarded as best practice in the U.S. It is organized around five core components, which are further divided into 17 principles that offer guidance on achieving the objectives of each component. COSO emphasizes that, for an internal control system to be effective, all five components must be in place and operating correctly (Brooks-LaSure, n.d.). The control environment of an organisation includes the following: exercising integrity and ethical values; commitment to competence of board of directors and audit committee; facilitation of management's philosophy and operating style; creation of organizational structure; issue assignment of authority and responsibility and utilization of human resources policies and procedures.

Control environment in SACCOs is essential for their overall financial performance by setting standards for ethical behaviour, governance among others (Kule et al., 2022; Sunday et al., 2018).

SACCOs as a category of cooperatives are based on seven principles that all authentic Cooperative Societies must adhere to. (U. Uganda, 2006).

Savings and Credit Cooperatives (SACCOs) originated in southern Germany in 1846, during a period marked by an agricultural crisis and a prolonged drought throughout Europe. This initiative was led by community business figures Friedrich W. Raiffeisen and Hermann Schulze-Delitzsch, who are recognized as the founders of the SACCO movement. SACCOs were founded to support indebted rural populations and counteract exploitative money lending practices that emerged during industrialization. Subsequently, SACCOs expanded significantly across Europe, Canada, the United States, Australia, and Ireland, where they grew to be larger than commercial banks in many regions (Poli & Poli, 2019).

In Africa, SACCOs began in Ghana in 1955, introduced by Father John McNulty, a Roman Catholic cleric from Ireland (U. Uganda, 2006). Establishment of SACCOs in Ethiopia started in the mid-1960s and the first one was pioneered by the employees of Ethiopian Airlines in 1964 (Tesfamariam, 2015). In East Africa, the first SACCO was formed in Kenya in 1964 in Mariira, Murang'a County by the Catholic Church through Fr. Joachim Getonga (Ototo, 2017). In Tanzania, the SACCOS were first

established in Tanganyika, Ismailia Savings and Credit Cooperative Society which was established in the year 1932 (Kazungu & Ndiege, 2020; MALAMSHA & MALEKO, n.d.). In Uganda the proliferation of SACCOS started during the 1970s economic crisis when banks were no longer happy to lend because of the high risks associated with borrowers (Mutesasira et al., 1998).

Globally, the World Council of Credit Unions (WOCCU) 2022 reports that credit union movement serves 403 million people worldwide with total savings and shares amounted to USD 2.99 trillion, combined asset base reached USD 3.6 trillion. On the Africa continent, SACCOs operate under the Pan-African organization, the African Confederation of Cooperatives Savings and Credit Associations (ACCOSCA). Established in 1968 and active in 29 countries by 2024 (Ort, 2023).In Uganda, Uganda Cooperatives Savings and Credit Union (UCSCU), which serves as the primary organization for financial cooperatives, was founded in 1972.The Uganda Microfinance Regulatory Authority (UMRA) is tasked with the licensing, regulation, and oversight of all Tier 4 financial institutions. Section 110 of the Tier 4 Microfinance Institutions and Money Lenders Act, the Bank of Uganda supervises SACCOs that have share capital exceeding UGX 500 million and voluntary savings surpassing UGX 1.5 billion. The Registrar of Cooperatives is also responsible for registering and supervising SACCOs. However, there has been ongoing debate and petitions from the SACCOs' apex body (UCSCU) advocating for a single regulatory body for SACCOs (Kigongo, 2023). There are 33,000 SACCOs in Uganda of which 10,594 are PDM, 6,700 Emyooga, and 15,706 are other SACCOs (Kigongo, Moses & Kayiwa, 2023) where only 11% of Uganda's population has access to formal financial institutions (Nassuna et al., 2024; Onzia, 2021).

Butuuro Peoples SACCO, established in 2007, boasts of a membership of over 16,000 and total assets amounting to Shs 15.5 billion. It employs 52 staff members and has a governing board of seven members, along with three Supervisory Committee members, operating across five branches (16th Butuuro SACCO AGM Annual Report, 2023). Although several studies have examined the relationship between control environment and financial performance of SACCOs in Uganda, none has examined the relationship between control environment and operational efficiency in South Western Uganda (Sunday et al., 2018). This study seeks to fill this knowledge gap by investigating the link between control environment and operational efficiency a case study of Butuuro Peoples Sacco. Whereas other studies measured operational efficiency using the performance ratios (Kemboi, 2019) this case study used questionnaires to obtain information from the respondents whether the Butuuro Peoples SACCO was operating efficiently (Kemboi, 2019). The paper is structured as follows: the first section provides an introduction, the second presents a literature review, the third outlines the methodology, results, and analysis, and the final section offers concluding remarks.

LITERATURE REVIEW

This study was based on Agency Theory. The theory was introduced by Jensen in 1972 which was further discussed by Meckling in 1976 and argued that corporations should be understood as networks of contractual relationships among individuals, contrasting with traditional economic views that define companies as single-product entities focused solely on profit maximization. According to (Udeh, 2020), businesses can be viewed as contracts continually negotiated by various stakeholders aiming to optimize their profits. Other researchers, such as

The theory suggests the existence of a relationship between principals who are shareholders and the agents who are SACCO executives (John & Nyamboga, 2024). In a cooperative society structure, the shareholders act as the owners and principals, while the management, known as agents, is tasked with the responsibility of operating the cooperatives (Kiplangat, 2017). However, Agency Theory faces several limitations due to conflicts of interest and agency costs, which stem from the separation of ownership and control, differences in risk preferences, information asymmetry, and the presence of moral hazards (Panda & Leepsa, 2017). Approaches to mitigate the challenges of Agency Theory involve strengthening ownership control, encouraging managerial ownership, appointing independent board members, and setting up specialized committees, all aimed at effectively managing agency

conflicts and reducing related costs (Panda & Leepsa, 2017). The case study was based on the Agency Theory as it provided a ground for examining the relationship between control environment and operational efficiency as done by (Widyaningsih, 2016).

The importance of Agency Theory, indicating that accountability naturally stems from the principal-agent relationship (Onzia, 2021). The principal delegates daily responsibilities to the agent, who is expected to operate in alignment with the owner's best interests. However, the agent's self-serving motivations can lead to situations where their interests overshadow those of the principal, resulting in agency costs (Brooks-LaSure, n.d.). Financial reporting failures are often linked to agency issues, as exemplified by the cases of Enron and Cadbury Nigeria Plc (Baguma Muhunga Kule et al., 2023; Kiplangat, 2017). This situation arises from the existence of information asymmetry. Consequently, agency costs can undermine shareholders' confidence and trust in financial statements. Restoring this trust can be accomplished by engaging both shareholders and employees to establish a more balanced management framework (Kiplangat, 2017). According to (Biryomumeisho et al., 2024; Lasisi, 2017), by positioning employees and managers on an equal level with shareholders, agency costs can be minimized, promoting stronger accountability.

However, managers may sometimes prioritize their interests over those of the organization they oversee. Such an understanding is critical because it recognizes the possibility of divergent interests that can arise in practice (Grundei, 2008). Effective use of organizational resources can lower costs, leading to economic advantages and the sustainability of businesses (Keramidou et al., 2013) while lack of integrity can result in fraudulent activities, ultimately causing shareholders to lose confidence in management's decisions and adversely impacting their willingness to invest further (Baguma Muhunga Kule et al., 2023; Jahanshad et al., 2013).
(Nalukenge et al., 2017) assert that the dedication of the board of directors to their oversight responsibilities motivates management to produce high-quality financial reports, thereby enhancing the financial reporting process. The board's commitment to integrity, demonstrated through its "tone at the top," influences management's ethical behavior by discouraging involvement in fraud and misappropriation. Additionally, employee competence ensures that tasks are performed in alignment with established standards (Kule et al., 2022), thereby promoting the effective and efficient use of organizational resources (Oyoo et al., 2014) Skilled employees guarantee high-quality financial reporting (Kewo, 2017). This is consistent with (Muheebwa, 2018) who argues that high-quality financial reporting lowers operational costs, reduces debt levels, and decreases the risk of loan defaults in financial institutions, ultimately improving financial performance. The control environment starts with top management and the board of directors, who establish the foundation by implementing policies, promoting good governance, upholding ethical standards, and maintaining internal controls. This indicates that complacency among directors and managers increases the likelihood of fraud and errors in financial reporting. Therefore, the control environment plays a vital role in a company's efforts to achieve robust financial performance (Harrell-Cook et al., 2017).
(Nyumoo et al., 2020) examined the impact of the control function on the financial performance of SACCOs in Meru County and found a notable correlation between the control function and financial performance. However, the results indicated that the control function did not have a significant impact on the financial performance of SACCOs in Meru County. Descriptive statistics revealed that, on average, the control function had a positive effect on financial performance, attaining a score of 4.34 out of a maximum of 5. Nevertheless, given that there are only about four respondents per SACCO on average, this sample may not adequately represent the broader population. (Wamukota et al., 2022) carried out a study to explore the impact of internal accounting monitoring and control activities on the financial performance of SACCOs in Kenya and found a significant positive relationship between these control activities and financial performance. However, use of purposive sampling could have a potential for bias and reliability issues arising from the purposive sampling technique. In a similar study,

(Ramanathan & Akanni, 2015) also analyzed the impact of internal accounting control on the financial performance of SACCOs in Kenya and identified a positive, though not very strong, relationship between accounting information and communication. The study conducted by (Kemboi, 2019) who investigated the impact of internal control on the operational efficiency of SACCOs in Kenya found a strong correlation and significant effect between the control environment and operational efficiency. However, the interview questions did not explore whether the SACCOs had established organizational structures and clearly defined job descriptions, including specific roles and responsibilities, which are essential information. Furthermore, the focus on only 42 out of 174 registered DT SACCOs (about 24%) raises concerns regarding the sample's representativeness. (John & Nyamboga, 2024) conducted a study that investigated the effect of control environment strategy on the financial performance of Rushere Savings and Credit Cooperative Organization in Kiruhura District, Uganda. They utilized a descriptive research design and gathered data from 127 respondents, which was analyzed using SPSS 24. The results indicated a significant positive relationship between the internal control strategy and financial performance. However, the sample consisted of only 86 customers chosen from a target population of 160 using the Yamane formula. This sample size is quite small in relation to the overall membership of Rushere SACCO, which exceeds 18,000 members (Rushere SACCO website).

In their study (Kule et al., 2022) The study explored the mediating role of financial accountability in the relationship between the internal control environment and the financial performance of SACCOs in Mid-Western Uganda, revealing a positive correlation between the control environment and financial performance.
In a study conducted by (Baguma Muhunga Kule et al., 2023) A study on the Internal Control Environment and Financial Accountability of SACCOs in Mid-Western Uganda was carried out using a cross-sectional research design and a positivist approach, analyzing data from 93 SACCOs. The study identified a strong connection between the control environment and financial accountability in these cooperatives.
A study carried out by (P. O. S. I. Uganda, n.d.) aimed to assess the impact of the control environment on the financial performance of SACCOs in Ishaka-Bushenyi Municipality, utilizing a sample of 98 respondents chosen based on Slovin's formula. The researchers used a descriptive cross-sectional and correlational design with a mixed-methods approach, ultimately finding a significant relationship between the control environment and financial performance, with the control environment accounting for 69% of the variance in financial performance. However, the study overlooked elements such as organizational structure and clearly defined roles and responsibilities. Furthermore, there is a discrepancy in the findings; one part indicates that the control environment contributes only 20.7% to the financial performance of SACCOs in Bushenyi-Ishaka Municipality, whereas the overall results suggest a contribution of 69%.

Studies show a positive and significant correlation between the control environment and financial accountability in local governments in Indonesia. The results indicate that a weak control environment adversely affects financial accountability, as it correlates with a greater incidence of fraud and mismanagement of organizational resources (Kewo, 2017; Oyoo et al., 2014).
This implies that a robust control environment protects organizational resources from losses caused by waste, fraud, errors, and misappropriation (Sewrathan, 2016). Drawing from the aforementioned studies, the control environment is regarded as a crucial factor influencing efficiency. However, it is clear that many of these studies were conducted outside of Uganda and across different industries, suggesting that their findings may not be applicable to all sectors and SACCOs within the country (Kabuye et al., 2019). (Wanjala & Riitho, 2020) recognize that the business environment influences the financial performance and operations of companies, though this impact varies significantly between countries and regions. This presents an empirical gap in comprehending the relationship between the control environment and efficiency in the SACCO sector in Uganda, suggesting a need for research to fill this void. Drawing from the literature reviewed on the control environment and efficiency, the following hypothesis was proposed: H0: There is a positive relationship between the control environment and the operational efficiency of SACCOs in Uganda, particularly regarding Butuuro SACCO

METHODOLOGY

The study utilized a descriptive research design alongside a quantitative research approach to gather respondents' views, perceptions, and opinions regarding the control environment and operational efficiency, at Butuuro Peoples Savings and Credit Society. The quantitative method enabled the researcher to collect data and analyze the relationship between the control environment (which is one of the five components of the internal control system), and operational efficiency for Butuuro Peoples SACCO. This research utilized a case study design, focusing on a single organization. The target population included 69 participants (as shown in **Table 1**), comprising employees, board members, supervisory committees, and "Elders," who are former board members. A sample of 63 participants was arrived at using Yamane's formula (1973), which guided the sampling process. According to Yamane (1973), the sample size was determined as follows:$n = \frac{N}{1+N(e)^2}$

Where; ***n*** is a sample size; ***N*** is the target population (69) and ***e*** is the error term = 5%.

The participants were chosen purposively because they were have ample experience and knowledge to make response to the research questions in the questionnaire on the control environment and operational efficiency of the SACCO under the study. From the 69 questionnaires given out to collect primary data, only 54 responded giving a response rate of 85.7%. This was considered adequate for this research (Njau & Karugu, 2014).

Table 1: Sample size

Category	Target population	Sample size
Employees	52	46
Board members	7	7
Supervisory Committee members	3	3
Elders*	7	7
Total	69	63

Source: (Researcher Computation, 2024) * Members of Board who retired in the last 8 years

The study used a simple random sampling to select respondents from each sample size. Individual respondents were randomly selected from each group to guarantee equal participation opportunities for all subjects in the study. The chosen respondents served as the units of analysis. Primary data was collected through structured questionnaires that were self-administered. The closed-ended questions were crafted to align with the research objectives and utilized a 5 -point Likert scale, where 1 indicated "Strongly Disagree," 2 represented "Disagree," 3 was "Neutral," 4 signified "Agree," and 5 denoted "Strongly Agree." This methodology is consistent with the findings of a previous study (Kabuye et al., 2019). To ensure quality control, the research questionnaires underwent testing for validity and reliability. Validity was assessed using content analysis, while reliability was measured using Cronbach's alpha (α) coefficients, as detailed in **Table 2**.

Table 2: Reliability Statistics

Variable	Cronbach's Alpha	N of Items
Internal control environment	.851	18
Operational efficiency	.704	6

To assess the internal consistency of the scales measuring the study variables, a reliability analysis using Cronbach's alpha was performed. A Cronbach alpha value above 0.7 is considered acceptable (Tavakol & Dennick, 2011). The internal control environment demonstrated excellent reliability with a Cronbach's alpha of 0.851 based on 18 items, indicating high internal consistency between items. The operational efficiency variable had a 6-item Cronbach alpha of 0.704, which is also considered acceptable (Considine et al., 2005), reflecting sufficient internal consistency for the items measuring operational efficiency.

Response rate

Table 3 Showing the Response rate.

Response	Frequency	Percent (%)
Returned questionnaires	54	85.7
Un returned questionnaires	9	14.3
Total Number of questionnaires	**63**	**100**

Source: Primary data 2024

A total of 63 questionnaires were distributed to participants, of which 54 were completed and returned, corresponding to a response rate of 85.7%. On the other hand, 9 questionnaires (14.3%) were not returned. According to Fincham (2008), a response rate of over 70% is generally considered acceptable for survey-based research. The relatively high response rate in this study suggests strong participant engagement, which contributes to the reliability and generalizability of the results (Baruch & Holtom, 2008).

RESULTS

Demographic characteristics

The demographic analysis of the 54 respondents revealed a significant gender disparity, with 57.4% identifying as male and 42.6% as female. This gender distribution reflects trends observed in various organizational settings, where male representation often exceeds that of females, particularly in leadership roles (Baruch & Holtom, 2008). The educational background of the respondents is noteworthy, with 79.6% holding a degree, suggesting a highly educated workforce capable of contributing effectively to the organization's goals. This aligns with findings from other studies that emphasize the importance of educational qualifications in enhancing organizational performance (Triwahyono et al., 2023). Furthermore, the length of service data indicates that a substantial portion (38.9%) of respondents has between 6-10 years of experience, which is critical for fostering operational efficiency through accumulated knowledge and skills (Johnson et al., 2023; Nyumoo et al., 2020).

Table 4: Demographic Characteristics

STATEMENT	OPTIONS	FREQUENCY	PERCENTAGE (%)
Gender	Male	31	57.4
	Female	23	42.6
	Total	**54**	**100**
Highest Education level	Diploma	3	5.6
	Higher National Diploma	1	1.9
	Other College Education	3	5.6
	Degree	43	79.6
	Masters	4	7.4
	PHD	0	0
	Others	0	0
	Total	**54**	**100**
Length of Service	Less than 1 year	12	22.2

1-5 years	14	25.9
6-10 years	21	38.9
Over 15 years	5	9.3
Total	**54**	**100**

The demographic characteristics of the respondents in this study, as presented in Table 4, indicate a gender distribution of 57.4% male and 42.6% female. Regarding educational background, the majority of respondents (79.6%) hold a degree, with a smaller proportion having obtained a master's degree (7.4%), a diploma (5.6%), higher national diploma (1.9%), or other college education (5.6%). No respondents reported having a PhD. In terms of length of service, 38.9% of the respondents have served for 6-10 years, 25.9% for 1-5 years, 22.2% for less than 1 year, and 9.3% for over 15 years.

INTERNAL CONTROL ENVIRONMENT

Table 5. Internal control environment

STATEMENTS	SD	D	N	A	SA
The institution's Board and Senior Management Team (SMT) are responsible for approving institutional policies and conducting periodic reviews of them.	0	0	1(1.9 %)	21(38.9%)	32(59.3%)
The Board and Senior Management Team (SMT) of the institution bear the ultimate responsibility for establishing and maintaining a sufficient and effective system of internal controls	0	0	2(3.7 %)	22(40.7%)	30(55.6%)
The Board and SMT offer leadership, direction, and supervision to the staff	0	2(3.7%)	4(7.4 %)	23(42.6%)	25(46.3%)
The SACCO has a structured framework that clearly outlines the lines of authority and responsibility	0	1(1.9%)	2(3.7 %)	22(40.7%)	29(53.7%)
Clear job descriptions for staff, detailing specific duties, reporting responsibilities, and limitations, are established and communicated effectively	0	1(1.9%)	3(5.6 %)	30(55.6%)	20(37%)

Policies, procedures are well defined.	0	1(1.9%)	3(5.6 %)	23(42.6%)	27(50%)
The institution reward staff in order to attract qualified individuals	2(3.7%)	2(3.7%)	12(22.2%)	26(48.1%)	12(22.2%)
Staff appraisals are implemented to identify incompetent staff that require training	0	1(2.3%)	2(4.7 %)	26(60.5%)	14(32.6%)
Ethical values are upheld in all Senior Management Team (SMT) decisions/There is integrity in SMT	1(1.9%)	2(3.7%)	7(13 %)	25(46.3%)	19(35.2%)
Codes of conduct exist in the institution	0	1(1.9%)	6(11.1 %)	20(37%)	27(50%)
The institution has a clear staff structure for recruitment and competency development of staff	0	0	2(3.7 %)	30(55.6%)	22(40.7%)
Our staff are reliable and responsible	0	2(3.7%)	0	20(37%)	32(59.3%)
Staff members are granted leave days to check their efficiency and reduce errors	0	2(3.7%)	7(13 %)	21(38.9%)	24(44.4%)
Routine and automatic checks are in place in finance	0	0	2(3.7 %)	21(48.8%)	20(46.5%)
There is an audit committee (Supervisory committee) responsible for Oversight	0	0	0	15(27.8%)	39(72.2%)
The members of supervisory committee are competent for the job	0	0	3(5.6 %)	26(48.1%)	25(46.3%)
The Sacco has a functioning internal audit function	0	1(1.9%)	3(5.6 %)	21(38.9%)	29(53.7%)
The Board discharges its functions/duties independently	2(3.7%)	1(1.9%)	4(7.4 %)	25(46.3%)	22(40.7%)

Source: Primary data

Table 5 illustrates the internal control environment of the SACCO, highlighting the responsibilities of the Board of Directors and the Senior Management Team (SMT). Most respondents either agreed (38.9%) or strongly agreed (59.3%) that the Board and SMT are responsible for approving and regularly

reviewing institutional policies. Additionally, 40.7% agreed and 55.6% strongly agreed that they ensure the internal control system is adequate and effective. Leadership, guidance, and oversight by the Board and SMT were acknowledged by 42.6% of respondents who agreed and 46.3% who strongly agreed. Furthermore, 40.7% agreed and 53.7% strongly agreed that the SACCO has a clear structure with defined lines of authority and responsibility. Clear communication of staff responsibilities was noted by 55.6% of respondents who agreed and 37% who strongly agreed, while policies and procedures were noted by 42.6% who agreed and 50% who strongly agreed were well defined. However, responses to employee rewards varied: 48.1% agreed, 22.2% strongly agreed, and 22.2% were neutral. Assessments to identify staff in need of training were supported by 60.5% who agreed and 32.6% who strongly agreed. Ethical values in SMT decisions were recognized by 46.3% of respondents who agreed and 35.2% who strongly agreed, while 50% strongly agreed that codes of conduct existed. SACCO's recruitment and skills development structure was clear to 55.6% of respondents and 40.7% of respondents who strongly agreed. The reliability of the staff was confirmed by 37% who agreed and 59.3% who strongly agreed.

Internal control environment

The internal control environment presented in Table 3 reflects an overall favorable view among respondents about the effectiveness of internal controls within their institution. A significant majority (59.3%) strongly agreed that the Board and Senior Management Team (SMT) are responsible for approving and reviewing policies, which is consistent with best practices in governance and internal control frameworks (Wanjala & Riitho, 2020). Additionally, 55.6% of respondents strongly agreed that the Board and SMT ensure an adequate internal control system, reflecting a commitment to maintaining robust governance structures (Wang, 2017). The clarity of institutional structures defining authority and responsibility was acknowledged by 46.3% of respondents strongly agreeing, which is essential for effective internal control systems (Saeed et al., 2018). However, the findings also highlight areas for improvement, particularly in staff rewards, where only 22.2% strongly agreed that the institution adequately rewards its staff, suggesting a potential gap in employee motivation and retention strategies (Fu & Jacobs, 2022).

OPERATIONAL EFFICIENCY

Table 6. Operational efficiency

STATEMENTS	SD	D	N	A	SA
There is a mechanism in place for member recruitment and retention	0	2(3.7%)	2(3.7%)	25(46.3%)	25(46.3%)
The SACCO contacts CRB before approval of loan	0	2(3.7%)	4(7.4%)	10(18.5%)	38(70.4%)
The rate of loan recovery is high	1(1.9%)	2(3.7%)	3(5.6%)	32(59.3%)	16(29.6%)
The SACCO monitors borrowers to ascertain if funds are utilized for the intended purpose	1(1.9%)	1(1.9%)	7(13%)	25(46.3%)	20(37%)

Sound investment policies are in place to enhance smooth operations	0	1(1.9%)	6(11.1%)	34(63%)	13(24.1%)
IT has an impact on operations	0	0	0	14(25.9%)	40(74.1%)

Source: Primary data

Table 6 shows the operational efficiency of the SACCO in several key areas. Regarding member recruitment and retention, 46.3% of respondents agreed, while 46.3% strongly agreed that a mechanism was in place for this process. Regarding loan approval, the majority (70.4%) strongly agreed that SACCO contacts the Credit Reference Bureau (CRB) before loan approval, while 18.5% agreed. Regarding the loan repayment rate, 59.3% agreed that it is high, 29.6% strongly agreed, although a small percentage (1.9%) strongly disagreed. On monitoring borrowers to ensure funds are used as intended, 46.3% agreed and 37% strongly agreed, while only 1.9% disagreed or strongly disagreed. 63% of respondents agreed and 24.1% strongly agreed, with 1.9% of respondents expressing minimal disagreement. Finally, 74.1% strongly agreed that IT impacts operations, while 25.9% agreed, indicating a strong consensus on the role of technology in improving operational efficiency.

Operational efficiency

Operational efficiency, as illustrated in **Table 4**, is another critical area of focus. The data reveals strong agreement among respondents on several key factors, particularly the mechanism in place for member recruitment and retention with equal 46.3% agreeing and strongly agreeing. This mechanism is vital for member creating loyalty and member satisfaction

Additionally, the role of IT in enhancing operational efficiency received overwhelming support, with 74.1% of respondents strongly agreeing, underscoring the increasing reliance on technology to streamline operations and improve service delivery (Ramanathan & Akanni, 2015). The presence of sound investment policies, affirmed by 63% of respondents by agreeing, further indicates a proactive approach to ensuring operational efficiency(Sewrathan, 2016)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.472[a]	.222	.208	.41166

a. Predictors: (Constant), INTERNAL_CONTROL_ENVIRONMENT

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.521	1	2.521	14.878	.000[b]
	Residual	8.812	52	.169		
	Total	11.333	53			

a. Dependent Variable: OPERATIONAL_EFFICIENCY
b. Predictors: (Constant), INTERNAL_CONTROL_ENVIRONMENT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	1.803	.659		2.737	.008	.481	3.124
	INTERNAL_CONTROL_ENVIRONMENT	.581	.151	.472	3.857	.000	.279	.883

a. Dependent Variable: OPERATIONAL_EFFICIENCY

A simple linear regression analysis was conducted to assess the capacity of the internal control environment to predict operational efficiency. The overall model proved to be significant, F (1, 52) = 14.88, p < .001, explaining 22.2% of the variance in operational efficiency ($R^2 = 0.222$). The internal control environment was determined to be a significant predictor of operational efficiency, with B = 0.581, t (52) = 3.857, p < 0.001, and a 95% confidence interval ranging from 0.279 to 0.883. This suggests that a higher evaluation of the internal control environment correlates with an increase in operational efficiency. The positive association between the two variables was further supported by a moderate correlation (R = 0.472), indicating that the internal control environment is a crucial factor in enhancing operational efficiency. The hypothesis set that is a positive relationship between control environment and operational efficiency was accepted.

DISCUSSION OF THE FINDINGS

Relationship between internal control environment and operational efficiency

The regression analysis shows that the internal control environment is a significant predictor of operational efficiency, explaining 22.2% of the variance in operational efficiency scores ($R^2 = 0.222$). This finding is consistent with existing literature that emphasizes the critical role of internal controls in enhancing organizational performance (Benjamin, 2023). The significant coefficient for the internal control environment ($B = 0.581$, $p < 0.001$) suggests that improvements in internal control practices are likely to lead to enhanced operational efficiency, reinforcing the need for organizations to prioritize the development and maintenance of effective internal control systems (John & Nyamboga, 2024; Olum et al., 2024). The findings implies that internal control environment is not a major determinant of operational efficiency since 41.9% of operational efficiency is determined by other factors contrary which confirms the theory.

CONCLUSION

This case study found a strong and significant relationship between the control environment and operational efficiency at Butuuro Peoples SACCO. To enhance the operational efficiency of the SACCO, management must focus on improving the control environment. Ensuring effective control environment is very critical for operational efficiency for Butuuro Peoples SACCO to achieve the objective of the SACCO. If operational efficiency at Butuuro SACCO is maintained, then it would help in fraud prevention, inefficiencies and errors in financial statements.

Based on research findings, the study recommends the following: Staff integrity**;** Board and SMT to provide the necessary oversight on internal controls, improve rewarding system and Board to discharge its duties independently to make sure that SACCO objectives. There is need to investigate other 41.9% factors that affect operational efficiency. More participants need to be brought on board and get key informants who have more knowledge and experience on matters of Butuuro and sacco movement. There is need to include other SACCOs from Western Uganda and increase on the sample size to study the effect of control environment on operational efficiency. Mixed method should be employed by using of secondary data to ascertain the effect.

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