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Internal Control and Corporate Governance among Cooperatives

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Abstract: This paper explored which domain of internal control best influenced the corporate governance of cooperatives. It applied the quantitative, non-experimental research design utilizing correlational technique, with 120 employees of cooperatives as the respondents selected through total population sampling. The researcher adapted and modified questionnaires to measure internal control and corporate governance. The Mean, Pearson r, and Regression Analysis were used as statistical treatments. Results revealed that the level of internal control of cooperatives was very high. Its indicators, risk assessment, information and communication, and monitoring, emerged with a very high rating while the indicators, control environment and control activities, obtained a high rating. Similarly, the study revealed a very high level of corporate governance among cooperatives. Its indicators, management, board, audit, and behavior, got a very high rating while the other three indicators, remuneration, members, and ownership, obtained a high rating. Based on the findings of the study, internal control is significantly correlated to the corporate governance of cooperatives, with a p-value less than the level of significance. The overall result disclosed that internal control has significant influence on the corporate governance of cooperatives. Control activities was the domain of internal control that best predicts corporate governance of cooperatives.

Keywords: Cooperatives, Corporate Governance, Internal Control, Philippines

I. INTRODUCTION

In the past few years, corporate governance has been highlighted not just in practice but also in academic literature due to a number of widely exposed cases of management misconduct and business collapses (Al-Zwyalif, 2015). Today, majority of the problems bombarding cooperatives emerge from ineffective governance such as issues on overlapping functions between management staff and management committees (Mutunga, 2009). In Kenya, majority of the savings and credit cooperatives suffered losses due to poor management, nepotism, and embezzlement of funds, and those are attributed in a nutshell to poor corporate governance (Mary, 2014). Similarly, cooperatives in Australia experienced inadequate corporate governance to detect and prevent poor decision making, incompetent management, insufficient managerial competitiveness, and membership and boards' fiduciary responsibility failure (Odera, 2012). Moreover, Malaysia has witnessed financial disasters in a number of cooperatives resulting in huge losses and downfalls traced to the absence of solid corporate governance implementation (Othman et al., 2016).

Furthermore, the success of cooperatives is found to be significantly dependent on the existence of good corporate governance (Mahazril, Hafizah&Zuraini, 2012; Othman, Mohamad & Abdullah, 2013). As mentioned by Mary (2014), the presence of corporate governance in cooperatives aids to the attainment of the cooperative movement objectives such as wealth creation for sustainable economic development. Good corporate governance helps cooperatives prevent fraudulent practices, encourage reliable decision-making, eliminate unnecessary costs, build and perpetuate good cooperative identity, and sustain financial investments. Clearly, corporate governance is essential for cooperatives (Abdul Manap& Tehrani, 2014; Dayanandan, 2013; Shaarani, Arshad, Hassan, Abdullah &MohdRoslin, 2013).

In connection with this, to maintain effective corporate governance, cooperatives should have a strong and solid foundation. Significantly, Olumbe (2012) highlights the vital role of internal control as the bedrock of corporate governance. Internal control promotes an effective and efficient way of operation, prevents threat of asset misappropriation, and warrants compliance with existing laws and regulations. Therefore, a well-functioning system of internal control strengthens corporate governance by keeping organizations on target towards its objectives, achieve its mission, and minimize surprises in between.

There are existing studies on the two variables as mentioned earlier; however, those studies dealt only with the main variables and with the identifying factors in an international context. Whereas, the researcher in this study covers the specific domain of each variable, and the concentration is on the local set-up. More so, previous studies on the correlation between internal control and corporate governance were mostly done in the context of corporations and nothing has been initiated in the context of cooperatives. Thus, in this milieu, the researcher recognizes the urgency of conducting this study; to find out if internal control may affect corporate governance of cooperatives, thus contributing to the existing gap in the literature. It will give specific contributions to the advancement of knowledge, theory, and practice primarily in the local set-up about which domain of internal control significantly influences corporate governance of cooperatives.

II. REVIEW OF RELATED LITERATURE

To provide a framework for the investigation, this section presents selected literature directly related to the study. This review includes principles, concepts, theories, and views that have connection to the variables of the study. The independent variable of the study is internal control with control environment, risk assessment, control activities, information and communication, and monitoring as its indicators (COSO, 2013) and the dependent variable is corporate governance with the following indicators: management, board, remuneration, members, ownership, audit, and behavior (Kowalewski, 2016).

2.1 Internal Control

As identified by the COSO framework, internal control has the following indicators: control environment, risk assessment, control activities, information and communication, and monitoring. Internal control is discussed by Ayyash (2017) as a set of rules that help organizations assure the achievement of its operational objectives effectively and efficiently, come up with reliable financial reports, and comply with existing policies, regulations, and laws.

Internal control is a tool which helps the management run the inner operation of the business effectively. It is a mechanism which aims to unify management and shareholder's interests. Effective internal control systems can manage and minimize unexpected setbacks which can cause financial losses (Solomon, 2010). This includes organizational policy adherence, asset safeguard, fraud and error prevention and detection, accounting record accuracy and completeness, and financial information reliability and timeliness (Ofori, 2011; Tunji, 2013).

More importantly, sustaining a well-functioning system of internal control is relevant, not only because it impacts financial performance positively, but also because it aids in safeguarding the company's assets, produces timely and reliable financial information, supports the efficiency and effectiveness of operation, complies with rules and regulations and most importantly, detects and prevents significant irregularities and fraudulent activities within the organization, avoiding organizational failure. Thus, to accomplish organizational mission, vision, goals, and objectives with utmost efficiency and effectiveness, a solid internal control is of great help serving as the primary weapon for organizations (Arens, Elder & Beasley, 2010; Ibrahim, Diibuzie&Abubakari, 2017; Gündoğdu, 2013; Kumuthinidevi, 2016).

2.2Corporate Governance

Corporate Governance has the following indicators as pointed out by Sifuna (2012): management, board, remuneration, members, ownership, audit and behavior. Corporate governance is developed from the concept of good governance which includes the relationship and roles among the management, board, shareholders, external parties, and the goals governing the organization (Tricker, 2009). The word corporate governance actually originated from the Greek word kyberman, which simply means to direct or to control or to govern (Ayandele& Emmanuel, 2013). It is a system by which the business obtains control and direction through the management which represents the stockholders (Al-Baidhani, 2014; Shungu, Ngirande& Ndlovu, 2014). It serves as a technique that guards the operation of the business (Claessens&Yurtoglu, 2012).

The Organization for Economic Co-operation and Development [OECD] (2015) explained that corporate governance encompasses a set of associations among the management, the board of directors, the shareholders and also other stakeholders. Corporate governance likewise delivers the framework by which the goals of the organization are laid down as well as the ways on how to achieve it, and, the periodic assessment of performance is also determined. Corporate governance helps build an environment of transparency and accountability which also shape an atmosphere of trust within and outside the organization.

In cooperatives, corporate governance involves weighing the process of decision making and its implementation. Cooperative governance varies from that of private companies since leaders in cooperatives need to know and live with the cooperative philosophies, responsibilities, and their role as part of the management body. Cooperatives are more focused on member development alongside organizational development; while corporations are more concerned with individual interests. Wealth acquired by the cooperative stays within the cooperative unlike in corporations where it generally flows out. Leadership in cooperatives is an integration of management and officers whereas inheritance and dynasty exist in corporations. Lastly, cooperatives are not just concerned about economic performance, but also with social responsibility, which most corporations failed to consider (Saxena, 2012).

Additionally, Labie and Périlleux (2008) stressed that for savings and credit cooperatives, corporate governance tends to be more complex due to the principle of democratic decision making and ownership. Cooperative governance manages the connection of the cooperative members and the committee representatives (Kyazze, Nkote, &Wakaisuka-Isingoma, 2017). With that, supervision and control by the committees shall put-up a monitoring device in assessing cooperative performance because one key aspect of cooperative governance is monitoring and control of management decisions and actions. Clearly, corporate governance is one of the most vital aspects of the major roles being played by the elected board members of savings and credit cooperatives (Ngugi, 2014).

2.3Theoretical Framework

This study is anchored on the proposition of Njanike, Mutengezanwa, and Gombarume (2011) that there is a significant relationship between internal control and corporate governance. The result of the study showed that the futility of the execution of internal controls substantially leads to poor corporate governance. The firm's adoption of solid well-functioning internal control evades the risk of ineffective board oversight and issues of directors enriching themselves at the expense of the shareholders and the organization. The mediocrity of the board of directors to effectively oversee the chief executive officer is caused by improper selection procedure such as choosing based on old boys' club rather than basing on merit and expertise. The study suggested that the board shall ensure a firm's structure with clear lines of authority, responsibilities, and reporting relationships. Thus, it is required that assigned responsibilities are executed effectively in line with the internal control policies hence ensuring good corporate governance.

The proposition agrees with the study of Olumbe (2012) which undoubtedly validates the claim that the effectiveness of internal control system substantially contributes to good corporate governance. An effective internal control system strengthens corporate governance because it is deemed to be a built-in piece in the management process which includes planning, organizing, directing, and controlling. An organization with solid internal control system helps the efficient and effective achievement of objectives, and this is referred to as good corporate governance. On the contrary, weak internal control system leads to bad corporate governance.

In support, the proposition of Mihaela and Iulian (2012) likewise provides additional theoretical framework for this study. It pointed out that internal control and corporate governance should not be considered and sustained independently. If internal control is not effective, corporate governance on the other side will suffer. Mainly, the absence of effective internal controls exposes organizations to higher risks of corporate scandals and these includes management misconduct, fraudulent financial reports, and auditing issues. Therefore, corporate governance cannot be entirely effective without effective internal control.

2.4Conceptual Framework

The conceptual framework is presented in Figure 1 which shows the variables of the study. This research investigated internal control, the independent variable, which consists of the following indicators: *control environment* which pertains to the policies, procedures, and actions set by the senior management defining the values and integrity of the organization and preventing the happening of unethical activities; *risk assessment* which relates to the identification, analysis, and evaluation of relevant risks and reducing it to an acceptable level; *control activities* which refers to the actual steps and procedures taken by the management to mitigate risks and achieve objectives; *information and communication* which denotes the proper handling of information at all levels in the organization; and *monitoring* which is labeled as the ongoing assessment of the implementation of internal control to identify if it is still effective or needs to be modified to respond to any given internal and external changes.

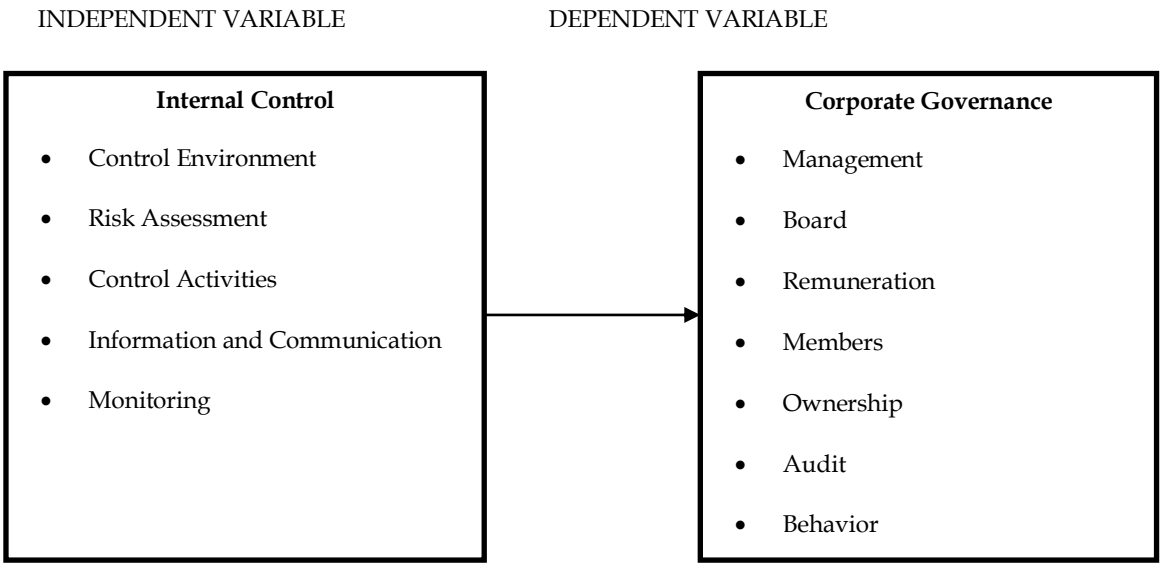

Figure 1. The conceptual framework of the study

Corporate Governance, on the other side, is the dependent variable with the following indicators: *management* which measures the structure and procedures of the executive management of the cooperative; *board* which pertains to the composition and qualification of the board of directors; *remuneration* which refers tothe compensation of the management and committees; *members* which quantifies the degree to which the cooperative informs relevant facts to its members; *ownership* which measures the ownership structure of the cooperative; *audit* which assesses the quality of audits and financial disclosures; and *behavior* which evaluates the social behavior of the cooperative.

III. METHOD

3.1 Research Design

This study applied a quantitative, non-experimental research design with the use of correlational technique to ascertain the significant influence of internal control on the corporate governance of cooperatives in Panabo City. Quantitative design starts on a theory analysis, hypotheses building, and then proceeds with the theory testing (Greener, 2008) and it involves collecting and analyzing data, presenting results, making interpretations, and writing the research in a manner that is consistent with the survey questionnaire used (Creswell, 2014). To test the theory that internal control affects corporate governance of cooperatives in Panabo City, this study utilized an adapted survey questionnaire.

3.2 Research Instrument

There were two sets of survey questionnaires utilized in this study. The first set was by Ayyash (2017), to quantity the level of internal control of cooperatives with five indicators: control environment, risk assessment, control activities, information and communication, and monitoring. The second set was taken from Kowalewski(2016), with the indicators: board, management, remuneration, members, ownership, audit and behavior. The two sets of survey questionnaires were adopted and modified to suit the study of cooperatives in Panabo City.

The first drafts of the two simplified and contextualized survey questionnaires were submitted for evaluation and validation by the panel of experts. They were validated and earned an overall rating of 4.08, described as a very good validity index. Correspondingly, a pilot testing was conducted to 31 employees from four cooperatives in Panabo City and they were excluded in the study. To determine the reliability of the survey questionnaires, they were submitted to the statistician and were tested through the use of Cronbach Alpha. The results showed that both questionnaires were reliable since they posted .923 and .917 scores respectively. Corrections, comments, and suggestions by the expert validators were incorporated to come up with the final revised questionnaire.

3.3 Data Collection

The researcher found the survey instruments appropriate to measure both the internal control and corporate governance of cooperatives in Panabo City. The aforementioned questionnaires then, were presented to the research adviser for corrections and later to the panel of experts for validation. Next, a letter to conduct the study was requested by the researcher from the Professional Schools. The letters, attached with a copy of the final revised questionnaire, were personally handed by the researcher to the respective authorized personnel of the cooperatives. After the approval of the cooperative managers to conduct the study, the researcher personally administered the survey and its retrieval.

All collected data were secured to protect confidentiality, especially transport. All the time, it was guaranteed that identifying information such as respondents' names was kept independently from other information collected as part of the research. Questionnaire responses were stored in a secured filing cabinet and the soft copies were saved in a password-protected computer. Furthermore, the gathered data were not passed on to any unauthorized person. Otherwise, it might mean the data can be utilized; however, people's names and other distinguishing attributes regarding the situation might be removed. In due course, paper records were discarded in a way that leaves no opportunities for recreation of data, for example, burning or shredding, then cross shredding. The researcher tabulated and placed the data gathered from the survey responses in an Excel spread sheet which was then emailed to the research statistician for statistical treatment.

3.4 Statistical Tools

The information collected through the survey questionnaires were tallied and treated by means of the following statistical tools:

Mean. This simply means the average of a given set of numbers. This was applied to meet the first and second objective of the study which is to identify the level of internal control and corporate governance of cooperatives in Panabo City.

Pearson r. This statistical tool measures linear correlation between the independent and dependent variable. This was utilized to ascertain the significant relationship between internal control and corporate governance of cooperatives in Panabo City.

Regression Analysis. This statistical method estimates the relationship between a dependent variable and one or more independent variables. It was utilized to find out which among the indicators of internal control best influences corporate governance of cooperatives in Panabo City.

IV. RESULTS

Presented in this chapter are the results of the study in tabular and textual forms. From all the statistical tables, it indicated that the standard deviation ranged from 0.78 to 0.81. These are close to 1.0 which denotes values around the mean are concentrated (Nasir, Hasnan& Hamid, 2015). This meant that the scores obtained in this study were close to the mean, indicating consistency of responses.

4.1Internal Control of Cooperatives

The level of internal control of cooperatives as perceived by the employees is shown in Table 1. The results revealed that the overall mean was 4.22 with a descriptive level of very high. This meant that the internal control of cooperatives indicated by *control environment*, *risk assessment*, *control activities*, *information and communication*, and *monitoring* are always manifested.

The results further revealed that the indicators which obtained the two highest means are *information and communication* and *risk assessment* with mean of 4.68 and 4.67 respectively, having the same descriptive level of very high. This showed that both indicators are always manifested as perceived by the employees of the cooperative. On the other side, it is *control activities* and *control environment* which obtained the two lowest means of 4.03 and 3.64, respectively. Both indicators got a descriptive level of high. This discloses that indicators control activities and control environment are oftentimes manifested as perceived by the employees of the cooperatives.

Table 1. *Level of Internal Control of Cooperatives*

Indicator	SD	Mean	Descriptive Level
Control Environment	0.68	3.64	High
Risk Assessment	0.55	4.67	Very High
Control Activities	0.88	4.03	High
Information and Communication	0.54	4.68	Very High
Monitoring	0.54	4.53	Very High
Overall	**0.81**	**4.22**	**Very High**

4.2Corporate Governance of Cooperatives

Presented in Table 2 is the level of corporate governance of cooperatives in terms of *management*, *board*, *remuneration*, *members*, *ownership*, *audit*, and *behavior*. The results revealed that the overall mean was 4.28, with a descriptive level of very high. This meant that the corporate governance of cooperatives is always manifested.

On a singular level, results revealed that indicators *management* and *audit* obtained the two highest mean of 4.59 and 4.47, respectively. Both had the same descriptive level of very high which meant that as perceived by the employees of the cooperative, the two indicators are always manifested. Furthermore, indicators *remuneration* and *ownership* obtained the two lowest means of 4.08 and 4.03respectively, having the same descriptive level of high which means that as perceived by the employees of the cooperatives, both indicators are oftentimes manifested.

Table 2.*Level of Corporate Governance of Cooperatives*

Indicator	SD	Mean	Descriptive Level
Management	0.55	4.59	Very High
Board	0.72	4.41	Very High
Remuneration	0.90	4.08	High
Members	0.88	4.11	High
Ownership	0.88	4.03	High
Audit	0.61	4.47	Very High
Behavior	0.61	4.33	Very High
Overall	**0.78**	**4.28**	**Very High**

4.3Significance on the Relationship between Internal Control and Corporate Governance

Presented in Table 3 are the results of the test of significance on the relationship between the variables of the study. The overall correlation had a computed r-value of 0.853 with a p-value of 0.000, which is significant at 0.05 level. The

first null hypothesis stating that there is no significant relationship between internal control and corporate governance of

Table 3. *Significance on the Relationship between Internal Control and Corporate Governance amongCooperatives*

Internal Control	Corporate Governance							
	Mgt	Board	Remuneration	Members	Ownership	Audit	Behavior	Overall
Ctl Env	0.090	0.138	0.360	0.393**	0.315**	0.121	0.156	0.319**
	(0.329)	(0.133)	(0.000)	(0.000)	(0.000)	(0.189)	(0.090)	(0.000)
RA	0.330**	0.284**	0.513**	0.548**	0.514**	0.318**	0.397**	0.548**
	(0.000)	(0.002)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ctl Act	0.497**	0.631**	0.676**	0.609**	0.609**	0.589**	0.554**	0.754**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Info & Comm	0.503**	0.407**	0.587**	0.547**	0.460**	0.324**	0.449**	0.598**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Monitoring	0.328**	0.248**	0.107	0.14	0.096	0.154	0.271**	0.217*
	(0.000)	(0.006)	(0.243)	(0.128)	(0.299)	(0.094)	(0.003)	(0.017)
Overall	**0.570****	**0.651****	**0.786****	**0.742****	**0.698****	**0.594****	**0.621****	**0.853****
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**	**(0.000)**

cooperatives in Panabo City is thus rejected. The results indicate that in an aggregate capacity, internal control issignificantly related to corporate governance.

Doing a correlation among the indicators of both variables, it can be gleaned that corporate governance revealed overall r-values ranging from 0.570 to 0.786, with p-values of 0.000, which are lesser than the 0.05 level of significance. This showed that the higher the internal control, the higher the corporate governance of cooperatives in Panabo City. In the same manner, if internal control of cooperatives is low, corporate governance also suffers.

As indicated in the table, control environment, risk assessment, control activities, information and communication, and monitoring were significantly related to overall corporate governance with computed r-values ranging from 0.217 to 0.754, $p<0.05$.

On the other hand, management, board, remuneration, members, ownership, audit, and behavior were significantly related to overall internal control which registered r-values ranging from 0.570 to 0.786, $p<0.05$.

4.4Significance on the Influence of InternalControl on Corporate Governance

Presented in Table 4 is the result of the regression analysis showing the significant influence of internal control on corporate governance of cooperatives in Panabo City. It was revealed that the F-value was 67.152 with a p-value of 0.000, which indicated that internal control significantly influences the corporate governance of cooperatives in Panabo City.

The result also displayed an R value 0.864, with an R2 value of 0.747, which meant that 74.70 percent of the variance of corporate governance can be best explained by internal control. The other 25.30 percent can be attributed to other variables not covered in this study.

When taken individually, the result displayed that all indicators of internal control, the control environment, control activities, risk assessment, information and communication, and monitoring showed significant influence on corporate governance of cooperatives having p-values lesser than the 0.05 level of significance. Among the five, control activities emerged as the best predictor of corporate governance given a higher Beta coefficient of 0.567. This was followed by information and communication with 0.216, next was risk assessment with 0.213, after which was control environment with 0.160, and lastly, monitoring with Betacoefficient of 0.103.

This rejects the second null hypothesis, stating that there is no domain of internal control that best influences the corporate governance of cooperatives in Panabo City.

Table 4.*Significance on the influence of Internal Control on Corporate Governance of Cooperatives*

Internal Control (Indicators)		Corporate Governance *B*	B	*t*	*Sig*
Control Environment		0.160	0.143	3.232	0.002
Risk Assessment		0.213	0.277	3.874	0.000
Control Activities		0.567	0.326	10.854	0.000
Information and Communication		0.216	0.246	3.700	0.000
Monitoring		0.103	0.141	2.131	0.035
	R	0.864			
	R^2	0.747			
	F	67.152			
	P	0.000			

V. DISCUSSION

5.1 Internal Control of Cooperatives

The study revealed that the overall level of internal control is very high, which means that internal control as perceived by the employees of cooperatives is always manifested. The very high result is due to high rating given by the respondents on control environment and control activities, and the very high rating on risk assessment, information and communication, and monitoring. This confirms the pronouncement of Onumah et al. (2012) along with other authors, Yurniwatia and Rizaldi (2015); Chen (2015); Gaku (2014); Koranteng (2011); and Vollbehr (2014) that the presence of control environment, risk assessment, control activities, information and communication, and monitoring will help an organization establish a solid well-functioning system of internal control.

5.2Corporate Governance of Cooperatives

For the level of corporate governance among cooperatives, the results showed that the overall level of corporate governance is very high. The very high level of corporate governance of cooperatives in Panabo City is due to the high rating given by the respondents on these cooperative's remuneration, members, and ownership, and the very high rating on management, board, audit, and behavior.

The cooperatives have competent management which handles all projects efficiently and effectively, have an independent board of directors which monitors and controls its strategic direction, have good compensation composition for its employees, have actively participating members in cooperative activities, have well-structured ownership involving only individuals to acquire shares, have well-functioning audit which promotes independence and transparency, and, have decent corporate behavior like disclosure of Corporate Social Responsibilities (CSR) policies. These practices are expected to increase the corporate governance of cooperatives, as viewed by various authors (Adewale, 2013; Lee & Isa, 2015; Felo, 2011; Immordino& Pagano, 2009; Roe, 2003;Sarenz et al. 2012; Adda et al. 2016; Kowalewski, 2016) who pronounced that corporate governance is increased by effective and efficient utilization of the firm's resources through the right people.

5.3 Significance on the Relationship between Internal Control and Corporate Governanceof Cooperatives

The results of the study confirmed that internal control has a significant relationship with corporate governance of cooperatives since the result showed a p-value less than the level of significance.

The results agreed with the proposition of Olumbe (2012) that the bedrock of corporate governance is an effective internal control, since it is a built-in part of the management process. Failure of the management to set up appropriate control environment, assess associated risks, implement proper control activities, handle information and communicate such properly, and monitor if controls are still in place, exposes companies to a wide range of dangers which correlate with poor corporate governance. Thus, for organizations to stay on course towards its objectives, achieve its mission, and minimize surprises along the way, a solid-well-functioning internal control must be established.

Furthermore, this supports Mihaela & Iulian (2012) who posited that absence of effective internal controls will expose organizations to higher risks of corporate scandals; thus, manifesting a poor level of corporate governance. Moreover, to promote good corporate governance, cooperatives need to engage their management and officers to trainings and seminars to increase competence and competitiveness in handling cooperative resources at its max, standardize its remuneration level to attract and retain quality managers and officers, involve members in cooperative activities, create strong and effective members by means of good ownership concentration, strengthen the audit function thorough competent and independent audit committee, and lastly, improve the cooperative involvement with the community. In addition, through effective internal control, cooperatives can monitor their operations; hence, influencing the control consciousness of its employees. Therefore, internal control had a significant positive effect on corporate governance (Maru & Ombaba, 2018).

Moreover, Florea and Florea (2013) along with (Yurniwatia&Rizaldi, 2015; Eskelinen, 2016; Shkurti et al., 2017; Koranteng, 2011; Abiola, 2013) noted that the implementation of internal control such as creating a positive atmosphere that will make everyone aware of the relevance of internal control, identifying asset value which contains maintenance, development and security of assets, maintaining clear internal policies and regulations, proper recording and communication of information to management and others who need it, and having an ongoing and periodical evaluations of the external supervision of internal control can promote effective corporate governance.

Besides, a well-functioning internal control can be manifested by having adoptive control environment with regards to organizational changes, considering the associated risks and knowing how to handle those risks, keeping records of trainings and achievements of employees, having a fair and adequate level of segregation of duties, encouraging fraud reporting from employees and taking suitable actions to counteract it for the future, having relevant and reliable information, both financial and non-financial, recorded and communicated within a specified period that enables them to execute their responsibilities, and having procedures and standards of assessing the quality of internal control if it is properly implemented or if it is still effective and whether there are corrective actions that should be taken within the organization to ensure the effectivity of corporate governance.

Lastly, the results clearly agree with the assertion of Njanike et al. (2011) that the efficacy of internal control contributes to a larger extent of corporate governance. To achieve better corporate governance, financial organizations must nurture a positive internal control culture through a well-placed comprehensive internal control management. Likewise, an organizational structure must be guaranteed by the board of directors to ensure designated tasks are effectively executed. Also, to guarantee the effectiveness of corporate governance, a spirit of morally doing business within the organization shall be cultivated starting from the top management cascading down to the lowest level in the organization to assure internal control adherence.

5.4 Significance on the Influence of Internal Control on Corporate Governance of Cooperatives

The result of this research exposed that internal control significantly influences corporate governance of cooperatives having a p-value of less than the level of significance. The R-squared of seventy-four-point seventy percent means that the variance of corporate governance can be explained by internal control at around seventy-four point seventy, the other twenty-five-point thirty percent can be attributed to other variables not covered in the study. The result further displayed that on the singular level, all indicators of internal control, i.e., the control environment, risk assessment, control activities, information and communication, and monitoring showed significant influence on corporate governance of cooperatives.

This is parallel to the study of Yurniwatia and Rizaldi (2015) that control environment helps an organization to set up the tone in implementing effective internal control. Also, the efficacy of the internal control will also depend on how organizations are prepared enough to face some risks that could threaten the organization, which is termed as risk assessment (Karagiorgos et al., 2011). Moreover, Aduam (2015) stressed that failure of the management to observe and execute control activities lead to poor internal control. Furthermore, Palfi and Boța-Avram (2009) emphasized that an adequate information and effective communication are essential for a well-functioning system of internal control. Finally, to guarantee that the internal controls are still functioning effectively, a monitoring program is necessary (Masli

et al., 2009; Vollbehr, 2014).

Among the five indicators of internal control, control activities emerged as the best predictor of corporate governance. This agrees with Mwangi (2011) who stated that among the five elements of internal control, it is control activities which impacts more to the success of internal control. Also, Dănescu et al. (2011) pointed out that those implementing appropriate internal control activities leads to good corporate governance.

Correspondingly, the results agree with the assertion of Al-Zwyalif (2015) that internal control has a significant role in enhancing corporate governance. The study specified that the commitment to all elements of internal control, the control environment, risk assessment, control activities, information communication and monitoring contributes to strengthening the corporate governance at a high degree. To develop a sound system of corporate governance, the top management should be the first one to adhere in the proper execution of internal controls.

VI. CONCLUSION

From the results of the study, the following conclusions were drawn:

The level of internal control of cooperatives is very high. Also, the study reveals a very high level of corporate governance as perceived by the employees of the cooperatives. Furthermore, the internal controls of cooperatives are significantly related to its corporate governance. Therefore, the result of the study agrees and confirms the proposition of Njanike et al. (2011) that internal control has a significant role in enhancing corporate governance, and the success of corporate governance requires compliance with all elements of internal control. Lastly, among the five indicators of internal control, control activities emerged to have the most influence to corporate governance.

VII. RECOMMENDATION

Based on the conclusions of the study, the following are highly recommended:

This study, with the very high level of internal control of cooperatives, suggests that cooperatives use internal control tools to evaluate the level of productivity, effectiveness and efficiency of its human resources, hire qualified and competent board of directors and audit committees to participate in exercising and developing the internal control process, craft procedures to recover missing data or programs with control access to data and computer files, use tools to measure employee's individual performance to assist managers to monitor with the targeted objective, have plan B for any surprise changes that might affect the work in the cooperative, maintain good communication channels between the staff and their departments that enable them to perform their tasks soundly and correctly, and have a management board which pays attention to the control environment and activities, in addition to conducting regular meetings with internal and external auditors.

Moreover, the very high level of corporate governance of cooperatives should be maintained and other aspects should be improved by ensuring that all management projects are approved by the general assembly and have gone through all the necessary procedures, retaining and attracting a highly qualified and competent board of directors to supervise the chief executive officer effectively (Njanike et al., 2011), standardize its remuneration level to attract and retain quality managers and officers, involve members in cooperative activities, create strong and effective members by means of good ownership concentration, strengthen the audit function thorough competent and independent audit committee, and lastly, improve the cooperative involvement to the community.

Since the result showed a significant relationship between internal control and corporate governance of cooperatives, it is recommended that all elements of internal control be sustained or even further be strengthened to ensure good corporate governance, which guarantees cooperatives to stay on course towards its strategic directions, achieve objectives on time, and eliminate corporate failures along the way.

Control activities, being the best predictor of corporate governance with a high descriptive level, shall be given more emphasis by having an asset disposal program, perform periodical stock taking for its asset, reports submitted to concerned parties, must have sound and sufficient procedures which are available to register the cooperative's assets and properties, considers the segregation of duties principle in all cooperative transactions, assigns asset to specific employee with accompanying responsibility and accountability, use complaints as an internal control tool, and strengthen the internal audit function.

The result revealed that only seventy-four-point seventy percent of the behavior of corporate governance can be explained by internal control; it is therefore recommended that further study be conducted to find out what other factors significantly influence corporate governance.

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