

**INTERNAL CONTROL SYSTEMS AND ORGANIZATIONAL PERFORMANCE
OF FINANCIAL INSTITUTIONS IN UGANDA**

A CASE STUDY: PRIDE MICROFINANCE LIMITED, FORT PORTAL BRANCH

Submitted By:

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DEDICATION

I dedicate this research dissertation to my dear parents Mr. Rukuya Asiimwe Patrick and Mrs. Molly Nankunda Rukuya and my siblings Kalinte, Lillian, Michael, Kenneth and Araali who have been there for me spiritually, financially and morally with such support that I will always stay indebted. May the good Lord bless and reward you abundantly.

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ACRONYMS

MFIs: Microfinance Institutions

ICSs: Internal Control Systems

ABSTRACT

The study sought to establish the role of internal control systems on the performance of Microfinance Institutions a case study of Pride Micro Finance Limited, Fort Portal branch. The research objectives were; to establish the effect of control activities on the performance of financial institutions; To examine the influence of communication and monitoring on the performance of financial institutions and; To assess the role of the control environment on the performance of financial institutions.

A cross sectional survey was used in the course of the study. Both qualitative and quantitative data was gathered in order to establish the relationship between the independent and dependent variables. The study comprised of 44 employees of Pride Micro Finance Limited that targets the management more so those within the departments that use internal controls which include officers from the accounting and finance department that is the Teller operators, accountants and Bankers, Procurement and security departments which are key users and enforcers of internal control systems within the organization. Simple random approach was used during the study. Purposive sampling was also used to select only respondents for the researcher to attain the purpose of the study. Data was collected using both primary and secondary sources. The data was presented in tabular form, pie charts and bar graphs. The researcher used Statistical Package for Social Sciences (SPSS) to analyze the relationship between the variables under study.

The study findings indicated that the internal controls used in Pride Micro Finance limited were effective and satisfactory, the level of performance was found to be adequate and a significant relationship between control activities, communication and monitoring, control environment and strong performance existed.

DEFINITION OF TERMS

Internal Controls: A process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. They involve controlling risks in the organization.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction to the study

All forms of economic activities are confronted with risks. Some of these risks, both internal and external, involve huge losses that could deprive a firm from its continuity if the proper management is not put in place; making managing risk has become a matter of necessity. These risks need to be managed and controlled in order to prevent vibrant organizations from catastrophic losses and help them achieve their goals and objectives.

Organizations therefore put Internal controls in place, as “the whole system of controls, financial and otherwise, are established in order to provide reasonable assurance of: (a) effective and efficient operation; (b) internal financial control; (c) compliance with laws and regulations” (CIMA, 2006). This study focuses on establishing the role on internal control systems on the financial institutions.

This chapter therefore sets out to give a clear background of the study, the problem statement, and the general and specific objectives of the study, the research questions, the study scope and significance, justification as well as the conceptual framework of the study.

1.1 Background to the study

According to Mawanda S. P. (2010), there is a general belief that putting in place and enforcing proper internal control systems leads to improved financial performance. He argues that properly instituted internal control systems improve the reporting processes and also give rise to reliable reports; which enhances the accountability function of management of an entity.

Globalization and the advancement in technology has become the hallmark for businesses today and the banking sector is no exception. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. The expansion of business, globalization and the advanced technology also exposes business to increased risk, fraud, altercations and other irregularities. This has made internal controls an imperative system to maintain by every business and for that matter the banking sector. Globalization of businesses, technological advancements, increasing risk of business failures, the fraud and altercations that emerged in the financial sector in the world and Africa in particular call for the proper maintenance of an effective internal control systems.

The weaknesses of many companies' control systems have been highlighted due to the big financial scandals of recent years (between 2001 and 2003) and as a result increased attention on risk management, internal controls, internal audit and their role in modern organizations.

The implementation of the Sarbanes-Oxley Act 2002 (SOX), which was enacted by the US Congress, in response to a number of major corporate and accounting scandals including those affecting Enron Corporation, Tyco International, WorldCom and others, is an evidence of major steps taken by governments to revise company regulations (Coates, 2002). These scandals and control weaknesses are spreading around the globe and Norway has also experienced its fair share of the financial scandal, for example the Finance Credit scandal (Berglund, 2002), the Statoil corruption case uncovered by the Norwegian paper, Aftenposten (Tisdall, 2003) and the Terra Securities scandal (Bjørndal, 2007).

As a result, the King together with the Norwegian council also appointed an expert committee with the combined tasks of proposing draft transposition measures for the implementation of directives 2005/60/EC and 2006/46/EC, which is to assess, within the

scope of preventing fraud and other financial malpractices, the need for and suitability of other measures (NOU 2008:16). This bill is to direct attention on identifying measures that could secure or improve stakeholders' access to vital information, as well as making it easier for companies to comply with existing legislation. This in a way highlights the need to review the Norwegian system for controlling companies' activities. Following these high profile corporate fraud and accounting scandals, greater demands have been created on companies to account for in their corporate governance statements, what risk factors they are exposed to and the internal control systems put in place to alleviate them.

The formality, structure and nature of a company's internal control system generally varies with the type of sector or industry, size of the company and the level of public interest in it. Since profits are in essence the reward for successful risk-taking, the purpose of an internal control system is to help manage and control risk appropriately rather than to eliminate it as indicated in the Turnbull Report (ICAEW, 1999). Thus, control mechanisms ought be incorporated into the business plan and embedded in the day-to-day activities of the company.

In Pride Micro Finance, over 90% of the profits are collected through extension of credit, savings of customers, and businesses of the bank. However there was a decline in level of profits from 73% in 2009 to 67.3% in 2010% because of inadequate compliance of the approved budget and unclear assignment of duties (Pride Microfinance financial report, 2010).

In an effort to improve on accountability level management tried to recruit qualified accountants who can follow financial accounting principles and regulations for managing profits of the bank notes Nalumansi, (2010). Despite the said internal controls put in place,

some profits are still un-accounted for. It was upon this that researcher based to examine the role of internal controls on the performance of financial institutions.

1.1.1 Background to the case study

Pride Microfinance is a local non-governmental organization that started in 1995 as a project of Pride Africa, an independent consultancy firm based in Nairobi Kenya. After gaining its charter in 2004 it expanded to different countries like Uganda, It maintains its headquarters in Metropole House on Entebbe Road, in the central business district of Kampala. It has 35 branches in Uganda.

The mission is to provide financial solutions to micro, small, medium and upscale entrepreneurs in rural and urban areas, through sustainable operations that promote social and economic growth of customers

The vision is to lead in the provision of financial solutions for the social and economic growth of entrepreneurs in Uganda. Pride Microfinance the case of this study has become one of the leading providers of micro finance services to hundreds of thousands of Ugandans. This thus calls for proper and efficient control systems to be put in place to enable effective and efficient delivery of service to the community.

1.2 Problem statement

Businesses today are faced with far greater challenges than before. This is attributed to the fact that economical, technological and legal independence are becoming more prevalent and pronounced. It thus logical to take the assumption that every business organization needs to put in place a strong control system to help achieve its goals. This is fundamental to the successful operation and day to day running of the business and assisting the organization in achieving its objectives.

Financial institutions too like any other organizations often face several challenges that affect their areas of operation; such as, loss of key human resource, substantial drops in financial and related resources, severe disruptions in the flow of information and communication, fires and other physical disasters; all leading to interruption of business and or loss of records.

However the biggest challenges financial institutions face, incline themselves towards fraud, waste, abuse and mismanagement.

In Pride Microfinance Limited, the case study for example, over 90% of the profits is collected through extension of credit, savings of customers, and businesses of the bank. However there was a decline in level of profits from 73% in 2009 to 67.3% in 2010% because of inadequate compliance of the approved budget and unclear assignment of duties (Pride Microfinance financial report, 2010).

It is thus important to note that while the overall purpose of internal control is to help an organization achieve its mission, internal control also helps a financial institution to: Promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission; Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; Promote adherence to laws, regulations, contracts and management directives and Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

In line of the above therefore, it is expedient to find out more about the role internal controls play in the performance of financial institutions amidst all the afore said challenges, establishing how these control measures facilitate the smooth running of the institution as it strives to achieve its set objectives and goals.

1.3 General Objective

To establish the role of internal control systems on the performance of financial institutions

1.4 Specific objectives

- i. To establish the effect of control activities on the performance of financial institutions.
- ii. To examine the influence of communication and monitoring on the performance of financial institutions.
- iii. To assess the role of the control environment on the performance of financial institutions.

1.5 Research Questions

- i. What is the effect of control activities on the performance of financial institutions?
- ii. What influence does communication and monitoring have on the performance of financial institutions?
- iii. What role does the control environment play on the performance of financial institutions?

1.6 Scope of the study

1.6.1 Content Scope

The researcher mainly focused on the role of internal control systems on the performance of financial institutions using Pride microfinance Limited as the case study. The research was inclined to identifying the different forms of internal controls, establishing the effect of

control activities on the economic performance of Pride Microfinance Limited; examining the impact of communication on the quality of services provided in Pride Microfinance Limited; establishing the role of monitoring in effective risk management in Pride Microfinance Limited.

1.6.2 Time scope

The study was confined to the period between the years 2009-2011 considering the much rapid advancement in the finance industry, economically and technologically, that could have effected much change in the service industry. This time scope was selected because it was long enough for the researcher to establish the role of internal controls on the financial performance of financial institutions

1.6.3 Geographical scope

The study was confined to Pride Microfinance Limited, Fort portal Branch, Kabarole District. The institution was selected owing to the role it has played in the lives of its clientele in area and the country as a whole since its inception in 1993. The branch was particularly chosen because it is one of the many PMF branches that have shown a distinct growth in clientele over the years which could be owed to improved quality of service, elements that the researcher inclined herself to in establishing the role of internal controls of the institution and its general performance.

1.7 Justification

Financial performance is one area that has been given a lot of prominence throughout the world and has been widely researched. A lot of literature has been written on financial performance, placing a lot of emphasis on internal controls as measure to ensure sustainable and improved financial performance. However, it is the perception of the researcher that there are still gaps in the research so far done. This study will therefore, try to establish the linkage between internal controls and financial performance as measured by economic performance, quality of service and effective risk management.

1.8 Significance of the Study

The study will benefit the finance institution under study in establishing the role of internal controls on the financial performance of financial institutions. In this, the management of the microfinance institution and as well as other banking institutions will be in position to know which decisions to make when and why.

The study is significant because it will add onto the existing scanty information establish the role of internal controls on the financial performance of financial institutions in Uganda.

Training institutions such as universities and colleges will find the study useful as a reference source. During their trainings, the said institutions will stress the emphasis of imparting more knowledge and skills in/on the application of internal controls related issues using the study material. The study also, through accessing different case studies and related literature, helped the researcher in acquiring more knowledge about the subject under study.

1.9 Conceptual Framework

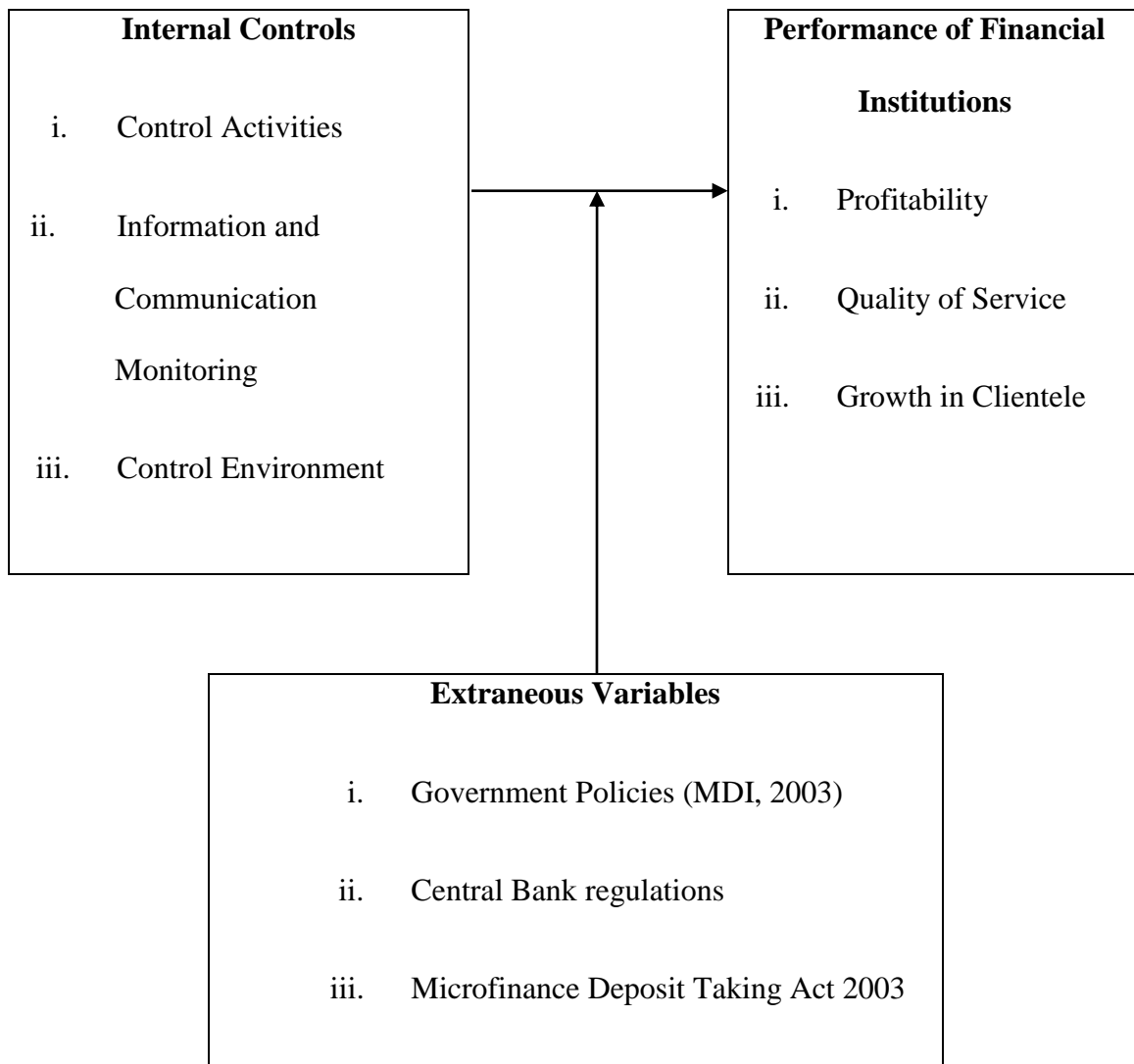
The conceptual framework is a diagrammatic representation showing the relationship the study seeks to investigate between the key variables of the study in relation to the extraneous variables. In this study the conceptual framework shows the relationship between internal

controls, the independent variable and performance of financial institutions the dependent variable. The conceptual framework also includes the extraneous variables that is assumed may affect the efficiency of the financial institution's performance alongside the independent and dependent variables and further shows how the attributes of both the independent and dependent variables as further shown diagrammatically below.

Figure 1.1. The conceptual Framework

Independent variable

Dependent variable



Source: Adapted from the COSO Frame work (1992)

From the above Conceptual framework, it is clear that Internal controls as an Independent variable (as measured by the Control Activities, Communication and Monitoring and Control environment) while Performance a dependent variable (as measured by Profitability; Quality of Service and Growth in Clientele). However, there also moderating factors like Government Policies (MDI, 2003); Central Bank regulations and Microfinance Deposit Taking Act 2003.

1.10 Limitations to the study

The process of conducting the research needed several travels to the area of study which were infringing to the pockets of the researcher and as well as other costs that were met in the data collection process. Regular adjustments and printings before approval of the final draft was also a challenge on the side of the researcher. On the other hand, many respondents were uncooperative and once in a while turned rude and unfriendly. This was attributed to the fact that some researchers in the past gave a token in appreciation for the information given which the researcher didn't go with since it was unethical and unacceptable. Some of the respondents could not quite comprehend the purpose of the study as being of any benefit to them in any way.

1.11 Conclusion

The chapter started with an introduction in which the concept of Internal Control systems was put into perspective, this was followed by the background to the study in which we brought out the general view that internal control systems will always lead to improved financial performance, giving rise to economic performance; also enhance the quality of service and also enhance the effective, the problem statement, the research objectives along with the research questions, the conceptual framework and as well as the limitations to the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides a critical review of related literature on the study variables, definition and understanding of internal controls, Internal Control Systems, earlier studies on internal control elements, common weaknesses of internal control systems, determinants of internal control strength and components of an internal control system, it also discusses a link between the variables of this study.

2.1 Definition and understanding of internal controls

Internal control is a process effected by an entity's board of directors management and other persons designed to provide reasonable assurance regarding the achievements of objectives in the following categories; efficiency and effectiveness of operations, reliability of financial reporting and compliance with applicable laws and regulations (Lower, 1998). The first category addresses an entity's basic objectives, including performance and progressing goals and safeguarding of resources. The second category relates to preparations of reliable published financial statements. The third deals with complying with the laws and regulations to which the entity is subject to.

Internal Controls (IC) are to be an integral part of any organization's financial and business policies and procedures. They are adopted by management to ensure that the organization conducts business in an orderly and efficient manner (KPMG Forensic, 2004). Consequently Knechel et al (2007) argues that they provide the framework through which management uses the resources at its disposal to achieve the organization's goals. According to Romanian banking literature, internal controls consists of couple of measures at management's disposal intended to ensure the organizations proper functioning, correct management of its assets and

liabilities and true recording in accounting evidences.

A broader definition provided by Furrugia (2002) views Internal Control as the plan of organization and the coordinated procedures used within an entity to; safeguard its assets from loss by fraud or errors, check the accuracy and reliability of accounting data which management uses in decision making, and promotion of operational efficiency and encourage adherence to adopted policies in those areas in which the accounting and financial departments have direct or indirect responsibilities.

Chambers (1995), Cosserrat (1999), Ridley and Chambers (1998) defined internal control systems as comprising of the internal control environment and control of procedures. They further state that the internal control systems includes all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objective of ensuring as far as practicable, the orderly and efficient conduct of the business, including allowance to internal policies, the safe guarding of assets, the prevention and detecting of fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The control environment sets the tone of an organization influencing the control cautiousness of its people (Gauthoier, 1996). It is a foundation for all other components of internal control providing discipline and structure. Effectively controlled entities strike to have competent people, instill an enterprise wide attitude of integrity and control consciousness, and set a positive tone at the top (Tener, 1993). They establish appropriate policies and procedures often including a written code of conduct which foster shared values and teamwork in pursuit of the entity's objectives (Mautz and Wijan 1981).

In evaluating the effectiveness of the internal control environments, Coopers and Lybraud (1993) argued that there was need to consider whether the following control objectives are

met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations, management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate “tone at the top exists”.

Control activities are policies and procedures that help ensure that management directives are carried out. They help ensure that necessary activities are taken to address risks to achievements of the entity’s objectives. Control activities occur throughout the organization at all levels and all functions (Junner, 1993). They include arrange of activities; authorization, verifications, reconciliations, review of operating performance security of assets and segregation of duties (Ernst and Yong, 1995).

Information flow is essential to effecting control, information about an organization’s plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttrman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Information systems produce reports, containing operational financial and compliance – related information that makes it possible to run and control an organization (Coso, 1992).

2.2 Internal Control Systems

The traditional accounting professional definition of internal control hinged on financial reporting and compliance aspect of control, however COSO, (1994) describes internal control system as a process involving board of directors, management, and other personnel created as a means of ensuring that the organization’s objectives can be achieved. The objectives are

categorized as; effectiveness and efficiency of operations, reliability of financial reporting, compliance with the relevant laws and regulations. According to the Australian Auditing Standard AUS 402 (ISA 400), control environment is distinguished from control procedure in that the former represents the general management attitude, awareness and actions as far as it concerns internal control whereas the later refers to what management has put in place as guidelines to control information and transaction procedure so as to achieve the organization's objectives.

Since organizations differ in management philosophy, structure and size the wider outlook of control elements will always reflect the above differences, (COSO, 1994). Organizational culture determines control through self-discipline and internal monitoring (Ezzamel et al., 1997). According to COCO (1995), 'top down, command and controlled' organizations emphasize formal controls while those that are down sized and empowered will adopt informal controls.

According to (Kirsty, 2008) an internal control system is an organization's confidence in its ability to perform or undertake a particular behavior. He further asserts that a system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations. The Basel Committee on Banking Supervision, as well as by the National Bank of Romania (Regulation no. 17/2003) claim that internal controls represent a continuous process which takes part of the board of directors, senior management and all levels of personnel, and whose aim is to ensure that all the established goals will be achieved.

Williams (2005) says that some things considered to be good are not always enough for information. Internal controls have to give the possibility to check quality. Shelton and Whittington (2008) concurs that sometimes even the quality of an information is not enough,

if it is uncompleted; that is why internal control needs to ensure that all elements are taken into consideration during their processing and the information always need to be geared to the pursued aim. He concludes that its availability is not enough to take possession of the information because sometimes it might be too late and that is why internal control has to avoid such situations and ensure the procurement of information is availed in a suitable time. The International Organization of Supreme Audit Institutions (INTOSAI), focuses more on a series of actions that permeate an entity's activity rather than one event or circumstance where by these actions occur throughout an entity's operations on an ongoing basis.

2.2.1 Components of an internal control system

Antecedents of internal control procedure strength include; organizational ethical environment, Risk management training and internal audit activities. The ethical environment refers to how top management is committed to the morally acceptable behaviors which are based on honesty, integrity and self discipline. Victor and Cullen (1987) similarly, COSO (1992) identifies control environment factors, risk assessment, control activities, information and communication and monitoring as interrelated components of a control system. Control categorized as control environment is being more emphasized over control activities by writers like Cary and Stringer (1995), also COSO (1994) and CoCo (1995). This is a shift from traditional control procedures that are put forward to monitor in real time or after the event, which puts greater importance on setting control around people. It is believed that people with strong set of belief are able to do their own, do the right thing for the institutions they work for without necessarily being directed to do so.

Control environment encompasses integrity and ethical values, management philosophy and operating style, accountability and human resource practices and is considered to be an important control element. Ethical environment can be enhanced by leadership and or

management's firm adherence to punishing those who violate the code of ethics (COSO, 1994). Control activities are top down reviews, functional or activity management, information processing, performance indicators, segregation of duties and physical controls (COSO, 1994). Crosschecking or authorization as control activities are portrayed as being of reducing importance. Risk control involves systematic procedures put in place to identify and measure risk associated with the institution's continuity and strategies for controlling and monitoring it. Risk assessment focuses on cost versus benefit approach to control and is not just the risk of fraud or misstatement of reports (COSO, 1995 and Mills, 1997).

COSO (1994) recognizes information and communication as separate control environment. Information sharing enables employees to get right and timely information thus developing a feedback Davis and Militello (1994), organizations where information sharing is encouraged decision making and performance is highly enabled. Employees take ownership of information and can easily identify and put right their own and their team's faults.

2.2.2 Determinants of internal control strength

While CPA Australia, (2003) emphasizes that internal control procedural quality depends upon the control strength on cash management, physical assets, purchasing and accounts payable, sales, payroll, bank account management and employee recruitment, Simon (1995), suggests that effectiveness of internal control system will be judged from the reliability of financial reports, efforts to comply with applicable laws and regulations, unfailing management reporting, protection of assets, guarding against fraud and errors and encouraging efficiency and effectiveness of operations.

2.2.3 Common weaknesses of internal control systems

Albrecht (1984), outlines twelve most common internal control weaknesses, in order of frequency as; Too much trust in employees, lack of proper procedure for authorization, lack of personal financial information disclosure (for bank frauds), lack of separation of transaction authority from custodian of assets, absence of independent checks on performance, lack of adequate attention to detail, failure to separate asset custody from accounting for assets, failure to separate accounting duties, absence of clear lines of authority, relaxed or absence of audit activities or reviews, no conflict of interest statement required and lack of adequate documents and records.

A view held by Buckoff (2002), and supported by literature by Mac Arthur, Waldrup and Fane (2004) is that lack of segregation of duties, lack of independent reconciliation on cash received and deposited and performing incompatible roles greatly facilitates internal fraud. The conditions for fraud to occur include an incentive to commit fraud (pressure), good reason for justifying fraudulent behavior (attitude) and an opportunity to commit fraud. Albrecht et al (1984), it is pointed out that opportunity is easy to control by establishing strong internal system unlike pressure and attitude which are human factors that are usually beyond direct influence of management.

2.2.4 Earlier studies on internal control elements

Previous research have focused on studying certain control elements such as communication which was handled by Hooks et al (1994), risk management Mills (1997) and human resource practices done by Carey and Stringer, (1995). The study on village banks in Uganda, Kenya and Tanzania by German Technical assistance (GTZ) and Africa Rural Agriculture and Credit Association (AFRICA) (2002) revealed that most of the MFIs were operating without documented policies and procedures and lacked operational manuals. It identified the

necessity to provide support to the MFIs so that they can come up with operational manuals and to improve on the existing systems. Information system is a set of interrelated components all of which should be present and work together for a common purpose. Internal control mechanisms must have well documented processes that are understood by everyone involved. There is immense need for MFIs to set aside resources such as time, money and personnel to develop or improve a MIS that can match its information requirement (The Center for Micro Enterprise Development Project, 1999). An organization which lacks information will be unable to attain its potential performance even if it may have capable and motivated staff (CGAP, 1998).

2.3 Elements of internal controls

Internal control is a multifaceted concept and has been defined in various ways in management control literature. Dawson (2003), provide one of the narrower definitions of IC and they view IC as a part of the overall management control system comprising of the measures taken by an organization to avoid errors and irregularities while operations are in progress.

Anthony (2004) suggests that it is not solely a procedure or policy that is performed at certain point in time but rather a continually operating and integrated system at all levels within an organization which consists of five interrelated components that is., Control environments, risk assessment, control activities, communication and monitoring. Doyle et al (2007) concurs that it is generally felt that all the following five components must be present for an internal control system to be considered as effective.

2.3.1 Control environment

The control environment is the foundational context within which the other aspects of internal control operate (Konrath, 1999). The philosophy and management style, organizational structure, methods of imposing control, assignment of authority and responsibility are all key aspects of the control environment (Jones, 2007).

Beneish et al (2008), defines the control environment as the tone of an organization and the way it operates. He further says that it concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively. Likewise, COSO (2004) looks at the ethical environment of an organization to encompass aspects of upper management's tone in achieving organizational objectives, their value judgments and management styles. The control environment represents the control atmosphere for the entity and is the foundation for the other components (Nicolaisen, 2004). Bates (2001) considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management's philosophy and operating style, the manner in which authority and responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success.

ISA400 clearly looks at the control environment to represents management's overall attitude, awareness and actions regarding internal controls. Lou (2008) concurs that higher level administrators of an organization are responsible for establishing the appropriate control environment.

2.3.2 Risk assessment

Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Furrugia 2002). It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Consequently Jones (2007) looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets.

2.3.3 Control activities

Control activities are the policies and procedures implemented by an organization to ensure that management's directives are carried out. These activities are often grouped into the three categories of objectives to which they relate, namely, operations, financial reporting, and compliance (Shelton & Whittington, 2008). He further argues that these control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, segregation of duties and authority.

2.3.4 Communication

According to Britnell (2001), Communication refers to the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated/required data and flows both vertically and horizontally in the organization.

Gaskill (2000) looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to

accomplish the financial reporting objectives. Open channels of communication are necessary to allow information to flow throughout the entity and into the financial statements and therefore management should discuss the identification, capture, and flow of financial information in its report (Richard & Janet 1997).

2.3.5 Monitoring

This refers to the process of assessing the quality of a system's performance over time (Jones, 2008). It entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives (Coffin, 2003). Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations (Henley 2005). It seeks to ensure that systems are performing as intended. However this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two (COSO, 2004).he further contends that these activities permeate the entire organization, at all levels and in all functions.

2.4 Organizational performance

Brown (1996) argues that performance measures in organizations must focus attention on what makes, identifies and communicates the drivers of success, support organizations learning and provide a basis for assessment and reward. Dixon (1990) adds that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. This is because according to him a firm's performance is central to the future well being and prosperity of any enterprise.

Study by Whyte (1991), shows that performance can be measured at both organizational and individual levels. This measurement is sometimes referred to as performance appraisal.

Whyte argues that organizations have desired potentials in terms of capacity, attraction, manual share and financial strength and performance is the difference between those potentials and those that have been achieved. Whyte argues that human capital asset accumulation has significant impact on the organizations ability to introduce new products, compete within markets thus influencing the level of performance. It increases knowledge base within the organization's success and performance.

Rumelt (1994), assert that availability and level of resources can also be used to analyze the performance of an organization. Remelt content that resources which may include assets finances, employee skills and organizational process are key indicators of the organizations performance one time. In agreement with this, Barney (1991) suggested that resources could be grouped into physical, human and capital resources and that a firm can increase its performance only when the firms are unable to imitate its resources. Ryne (1994) argues that although a strong financial performance indicates a strong institution, qualitative indicators like the nature of management and education level of labor force must supplement the quantitative indicators in order to enable the enterprise ability to meet its focus and objectives.

Palmer (1993) emphasizes that performance in organizations is looked at in terms of economy, efficiency and effectiveness. Economy and efficiency are usually measured in financial terms and data such as costs, volume of sales and productivity are used. Economy is defined as acquiring resources in appropriate quantities and at the least cost.

Drucker (1999) defines efficiency as maximizing inputs for a required output. On the other hand Drucker defines effectiveness as the extent to which the defined task has been accomplished and is consistent with notions of non financial accountability. Effectiveness

may partly be measured in terms of quality service, customer satisfaction and achievement of goals.

Morton (1992) is also in agreement with Drucker's (1999), contention that performance should be measured in terms of customer satisfaction. Morton argues that in order to be able to perform, organizations should critically look at their customers and know how best they are satisfying their needs. He adds that organizations should continuously improve on their services through innovations and great value. Kloot (1999) adds that in order to assess performance, organizations should be examined in terms of quality of services, flexibility, utilization and innovations.

2.5 Relationship between internal control and organizational performance

Coso (1992) provided criteria against which effectiveness of internal controls can be assessed. Internal control can be judged effective if the entity's operations objectives are being achieved; published financial statements are being prepared, reliable and applicable laws and regulations are being complied with. While internal control is a process, its effectiveness is a state or condition of the process at a point in time. Accordingly, the effective functioning of components of internal control provides a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organizational performance thus the company's criteria for effective internal control and success of the entire organization.

Efficiency and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records (Aren and Lwebbecke, 1994).

One of the five interrelated components of an internal control system is a control environment factor. It refers to the integrity, ethical values and competence of the entity's people (COSO, 1994). Internal control should be viewed in a broader context for example it should as well be reorganized as a function of people's ethical values as it is of standards and compliancy mechanisms (CoCo, 1995). Wells (2001), illustrate practical fraud occurrences discovered by competent accountants within organizations and what the accountants say about how they detect fraudulent transactions. Internal control system helps an organization to achieve its objectives such as its efficiency and effectiveness, reliable financial reporting and compliance with regulations COSO (1994). Controls serve the systems goals, they interact with the system and its environment thus directing the energy of the system toward fulfillment, in the same way changes in the environment are easily noticed and adapted to (CoCo, 1995). ACMAD (1994), recognizes that internal controls can enhance the productivity and competitiveness of organizations.

2.6 Profitability

Profitability, According to Pandey (1996), defines profitability as the measure of overall performance effectiveness of the firm.

Profitability has been defined as the measure of whether the company is performing satisfactory (Frank Wood, 1996). It is used to measure the performance of management, identifying whether a company may be worthwhile investment and determine the company's (bank) performance relatives to its competitors. On the other hand, the indicators of profitability in the banking service include the profits learned by the bank, the growth and expansion prospects of the bank, the cost of operation that are incurs and the demand of loans.

A company should earn profits to survive and grow over a long period of time. Profits are essential but it would be wrong to assume that every action initiated by management of the company should be maximizing profits irrespective of social consequences. It is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth (Pandey, 1996).

Profits

Pandey (1996) states the following definitions of profits. In general terms profit is defined as the difference between revenue and expenses over a period of time. In economic sense, profits would mean net increase in the wealth vis-à-vis cash flows plus change in the value of the firm's assets. This definition incorporates the time dimension and therefore implies the discounted value (present value) or the stream of benefits.

The accounting definition of profits is based on actual principle and include non cash items. It is assumed that items of revenue and expenses are on cash basis still there would be difference between accounting profit and cash profit; the accountant charges depreciation which

is a non cash item to computing accounting profits.

Profit is the end result of operation of an organization. Traditional economic take profit maximization as the objective of the firm (Horne, 1989) Baxley (1996) and Horne (1989) are both in agreement that the level of profitability achieved by a business enterprise is a good indicator of its success. The successful organizations are those that are able to win and retain customers. They see and seize business opportunity in the environment and turn this opportunity in terms of money. They also continuously create and keep customers by giving them products and service that gives to customers. Such organizations are characterized by

high efficient, productivity, profitability, innovativeness and empowered people plus good customer base.

Profitability ratios

Profitability ratios are calculated to measure the operating efficiency of the organization (bank).

Management of the company, creditors and owners are also interested in the profitability of the Firm that is, creditors want to get a reasonable return on their investment but this is impossible only when the company earns profits.

Horne (1989) asserts two types of profitability ratios are calculated:

A) Profitability in relation to sales

B) Profitability in relation to investment. The profitability ratios in relation to sales include;

- Gross profit margin
- Net profit margin
- Operating expense ratio. The profitability in relation to investment;
- Return on investment (ROI)
- Return on equity (ROE)
- Earnings per share (EPS)
- Dividend per share (DPS)
- Dividend pay-out ratio
- Dividend and earnings yields
- Price earnings ratio

2.7 Effect of control activities on the performance of financial institutions

Controls can either be preventative or detective. Preventative controls are proactive in that they attempt to deter or prevent undesirable events from occurring. Detective controls provide evidence that an error or irregularity has occurred. While preventative controls are preferred, detective controls are critical to provide evidence that the preventive controls are functioning as intended. Basic control activities include:

Budgetary/financial control (detective)

Care should be taken to prepare reasonably accurate financial budgets and projections based on the most reliable data available. Actual financial activity should then be compared on a regular basis to budgeted and/or projected amounts to provide an early warning signal as to significant positive or negative variances. Some variances could indicate temporary or permanent changes in the particular business environment, which may warrant changing certain aspects of how business is conducted. Other (especially negative) variances could indicate that processing errors or fraudulent activities are occurring. A minimum variance threshold should be established for key financial indicators. Variances in excess of the threshold should be investigated.

Proper approvals, authorization and verification (preventative)

The action of approving transactions should not be taken lightly. An approval indicates that the approver has reviewed the supporting documentation, ensured it is appropriate, accurate and in compliance with university policy and procedures. Thus, responsibility for a transaction comes along with an approval.

Accountability (Detective)

The identity of all individuals involved in a process or transaction should be readily determinable to isolate responsibility for errors or irregularities. This is known as an audit trail and can take the form of signatures, initials, date/time stamps, computer login IDs, or other means of identification. The documents or computer records containing this information must be kept on file and available for examination for a reasonable time period in line with a record retention policy.

Separation of Duties (Preventative)

No one person should be able to control a transaction or process from beginning to end without intervention or review by at least one other person. Specifically, no one person should initiate and authorize a transaction nor should one person record and reconcile transactions. This principle is not limited to financial activities alone (i.e. processing student grades). Involving two or more people to perform key responsibilities reduces the opportunity for misappropriation of funds or fraud. Examples include:

Reconciliations (Detective)

Periodic comparisons of detail records should be made with an independently maintained control record.

Examples: Monthly transaction reports are sent by the Comptroller's Office summarizing the revenue, expense and encumbrance activity. In order to validate data integrity and accuracy, the budget manager of each account should reconcile the amounts to supporting documentation. (Revenue, expenses, procurement card statements, payroll etc.) Identify any transactions not yet recorded to obtain accurate budget availability. Indicate this review was

performed (i.e. initials or checklist) and file with the supporting documentation. Any discrepancies should be investigated.

Accuracy of Data Entry (Preventative and Detective)

Original data entry into production computing systems should be checked, verified or edited in some way to identify errors to ensure accuracy and reliability of the data. The most appropriate or efficient method will depend on the particular computing system and the type of data. Examples of methods used include:

- Comparison of output reports to original data entry documents.
- Built-in computer system edits to check for “reasonableness” of data in key fields.
- Comparison of batch totals of certain statistical data to output reports of matching statistics.
- Reconcilements.

Internal controls provide important benefits to the performance of financial institutions by improving the quality of accounting information, and it reduces the possibility of mismanagement, error and fraud. Segregation of duties is the cornerstone of internal control. It is a coordinated system of checks and balances in which tasks necessary to complete a transaction either are performed by different individuals, two or more individuals working in tandem, or the tasks are independently reviewed. No one individual should control all aspects of processing a credit card transaction or refund (i.e., reviewing daily batches, reconciling the Statement of Activity and Monthly Merchant Statement from Fifth Third Bank).

Effective controls reduce the risk of asset loss and help ensure that plan information is complete and accurate, financial statements are reliable, and that the plan complies with laws and regulations. Furthermore, internal controls ensure effectiveness and efficiency of operations, reliability of management, financial and taxation reporting, appropriate management and control of risk, compliance with applicable legislation, sub-ordinate legislation and other financial management policies of the State. Management must be able to demonstrate that controls are operating as intended, and that the levels of risk (after the application of controls) are appropriate and acceptable to the organization. Internal Audit adds value by evaluating the adequacy and effectiveness of its systems of internal control, and the quality of performance in relation to internal control in all areas the Department's operations.

2.8 Effect of monitoring and communication on performance of financial institutions

Just as control activities help to ensure that risk management actions are carried out, monitoring helps to ensure that control activities and other planned actions to effect internal control are carried out properly and in a timely manner, and that the end result is effective internal control.

Ongoing monitoring activities evaluate and improve the design, execution and effectiveness of internal control. Separate evaluations, on the other hand, such as self-assessments (done by department employees) and internal audits, are periodic evaluations of internal control components resulting in a formal report on internal control.

Role of Management

Management's role in the internal control system is critical effectiveness. Managers, like auditors, don't have to look at every single piece of information to determine that the controls

are functioning and should focus their monitoring activities in high-risk areas. Spot-checking transactions or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning as intended.

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance.

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards.

Internal control systems change over time. The way controls are applied may evolve. Once effective procedures become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks

Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken

seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

The Information and Communication component of the Framework supports the functioning of all components of internal control. In combination with the other components, information and communication supports the achievement of the entity's objectives, including objectives relevant to internal and external reporting. Controls within Information and Communication support the organization's ability to use the right information within the system of internal control and to carry out internal control responsibilities.

Information is the data that is combined and summarized based on relevance to information requirements. Information requirements are determined by the ongoing functioning of the other internal control components, taking into consideration the expectations of all users, both internal and external. Information systems support informed decision making and the

functioning of the other components of internal control by processing relevant, timely, and quality information from internal and external sources.

Communication enables the organization to share relevant and quality information internally and externally. Management communicates information internally to enable personnel to understand the entity's objectives and the importance of their control responsibilities. Internal communication facilitates the functioning of other components of internal control by sharing information up, down, and across the entity. External communication enables management to obtain and share information between the entity and external parties about risks, regulatory matters, and changes in circumstances, customer satisfaction, and other information relevant to the functioning of the other components of internal control.

An information system is the set of activities, involving people, processes, data and/or technology, which enable the organization to obtain, generate, use, and communicate transactions and information to maintain accountability and measure and review the entity's performance or progress toward achievement of objectives.

The Framework distinguishes this component from the internal reporting category of objectives. Information and Communication is only one component of the Framework. Controls within this component help to provide relevant, quality information to support all components of internal control. On the other hand, an organization seeking reasonable assurance regarding a specified reporting objective is achieved through all five components of internal control being present and functioning, and operating together.

Communication relates to sharing information used in designing, implementing, or conducting internal control, or in assessing its effectiveness. Communication can appear broad at times (e.g. information communicated about external trends or events), but when it is used in the context of the Framework, this communication may enable a user to carry out

controls within Risk Assessment although a department or account manager may have developed excellent policies and procedures, if these are not communicated to the staff that performs these duties, they may as well not exist. Well-designed internal controls outline the specific authority and responsibility of individual employees. They can also serve as a reference for employees seeking guidance on handling situations.

An internal control plan should provide for information to be communicated both within the organization and externally to those outside, for example vendors and other departments. Management should distribute copies of the department's internal control plan to all staff whose jobs are affected in any way by the information in the plan. Sending information electronically allows management to immediately distribute new procedures and other information to their staff. Departments should conduct in-house training sessions upon releasing new or extensively revised internal control plans to explain the meaning of the plan and the importance of internal controls. This training should also be part of the orientation of new employees.

The following is a list of issues that impact the communication of information:

- Effectiveness with which employees' duties and control responsibilities are communicated.
- Establishment of channels of communication for people to report suspected improprieties.
- Receptivity of management to employee suggestions of ways to enhance productivity, quality or other similar improvements.

- Adequacy of communication across the organization and the completeness and timeliness of information and its sufficiency to enable people to discharge their responsibilities effectively.
- Openness and effectiveness of channels with customers, suppliers and other external parties for communicating information on changing customer needs.
- Extent to which outside parties have been made aware of the entity's ethical standards.
- Timely and appropriate follow-up action by management resulting from communications received from customers, vendors, regulators or other external parties.

A fully functioning information and communication system is vitally paramount to the performance of financial institutions. It plays a major role in the adherence to the set internal controls, full internalization, and identification of loopholes and also aids in closing the gaps therein.

2.9 Role of control environment on performance of financial institutions

The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the Entity's internal control and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people.

While an agency's internal controls and structures underpin a strong control framework, management should also have an understanding of the importance of the agency's culture in influencing the effectiveness of the controls. For example, an agency may have a well documented risk management process, but without active management support, the process may not be adopted to the extent required to ensure best practice concerning risk identification and management.

It should be clearly noted that much as developing the necessary internal controls is important, the control environment is where they (controls) take effect, where they are manifested and given a lifeline, this is where they actually take effect. Institutions that create, build and sustain a conducive control environment enjoy relatively large success in terms of financial performance as opposed to those that don't step up to the challenge.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focused on the methods that were used to collect data and analyze it. It is made up of research design, the population that was studied, the sample selection procedures and sampling techniques used data collection, methods of verifying reliability and validity of data as well as matters regarding ethics and the limitations of the study.

3.1 Research design

The study employed a case study design with both quantitative and qualitative approaches. The study was cross sectional in nature.

3.2 Study Area

The area of study is Pride Microfinance Limited, Fort portal Branch, Kabarole District. The reason for the case study is that it runs a financial business which requires volumes of data and internal controls to manage the effectiveness and efficiency of the system as the institution serves its clients and also meets the set goals. This financial institution also needs to monitor its assets which are also needed to help the organizations in its operations. This implies that Pride Microfinance uses internal control systems and as a result, it will be a perfect case study concerning the role of internal control systems on organizational performance.

3.3 Study population

The study targets the management more so those within the departments that use internal controls which include officers from the accounting and finance including; the Teller operators, accountants and Bankers; procurement and security departments which are key user and enforcers of internal control systems within the organisation. From these departments, the expected population is 50 people all representatives of the stated departments in Pride Microfinance Limited including security officials, banking officers, and management.

3.4 Sample size

There would be sample size for the study will be 44 respondents basing on the approved sample size determination table presented by Krejcie and Morgan (1970). These will be the respondents that will present the researcher with firsthand information through various tools of data collection that are presented to them by the researcher i.e. questionnaires among others. These will also avail the researcher with reports and other documents to the researcher as he/she seeks to find out the role of internal controls on the performance of to Pride Microfinance Limited.

3.5 Sampling Technique

The researcher used two sampling techniques; stratified and purposive sampling techniques respectively. Stratified sampling technique was used to create different strata in the study population, Purposive sampling is where the researcher consciously decides on whom to include in the sample. It is used simply because the study was targeting basically custodians of the internal control systems. It also ensured that only people with relevant information are sampled.

3.6 Data Collection Sources

There will be two sources of data;

3.6.1 Primary sources of data

Primary data was collected by using questionnaires and interview guides.

3.6.2 Secondary sources of data

This will also be obtained from annual reports, journals, newspapers, publications, library research and any other research work on the subject.

3.7 Data collection tools

3.7.1 Questionnaires.

They are the main instrument to be used in the study. It will consist of structured /close-ended questions. It is appropriate because it saves time and money and respondents are given chance to answer questions at their convenient time. The researcher used both formal and informal methods to elaborate information in the questionnaires.

3.7.2 Interview guide

The interview guides will be prepared and used during a face to face interview. This method is flexible, accurate and quicker in yielding.

3.8 Validity

The validity of the data collection instruments is done with the help of an Expert (the Researcher's field friend or the supervisor) to edit the questionnaire and the Interview guide. The Researcher therefore forwarded the structured Questionnaire to Supervisor who is an expert in the area covered by the research for editing and reviewing.

3.8.1 Reliability

The collection of data was done in many ways to ensure that it is reliable through interviewing, observation so as to get information to compare and present the best results.

3.9 Data management and analysis

Several methods were used to process data. All data collected was checked upon completion of the procedure, questionnaires fully filled were handed over to the researcher. Data was then compiled, sorted, edited and coded to improve on its accuracy and relevancy. Data was tabulated to reveal the frequencies and percentages as units of measurement.

After data collection exercise, information was edited to eliminate errors, ensure accuracy and relevancy. It was then coded to allow the use of frequencies and percentages as units of measurement. Information was classified and presented using tables, charts, MS Excel and MS Word computer packages.

3.10 Ethical Considerations

The researcher got an authorizing letter from the university which was used to reach the study area and approach people easily. The researcher obtained a of introduction letter as an emphasizing document to show the need for the particular opportunity. The researcher formulated questionnaires and interview guides that were given to the many selected individuals of Pride Microfinance Limited more so the management and those form the selected departments which include accounting and finance as well as the audit departments that use internal controls.

The researcher used closed ended questions with various options in each therefore the respondents were to provide data according to their will, no forceful terms will be applied and

all data provided was used for research not any other business. There will not be any exchange of data for money.

3.11 Limitations to the study

The researcher anticipates encountered a problem in soliciting data given the fact that it is a financial institution where confidentiality is encouraged therefore I used self administered questionnaires.

High cost of data collection ranging from; transport fees, telephone calls, typing and stationery among others therefore I ensured that I got financial assistance from my family and friends.

Delays in response, some respondents took a lot of time filling in the questionnaires so I gave them the questionnaires in time making a provision for any possible delays.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents empirical findings in reference to research objectives in chapter one. These findings were obtained from both primary and secondary sources. The presentations are in the form of graphs, tables and statements.

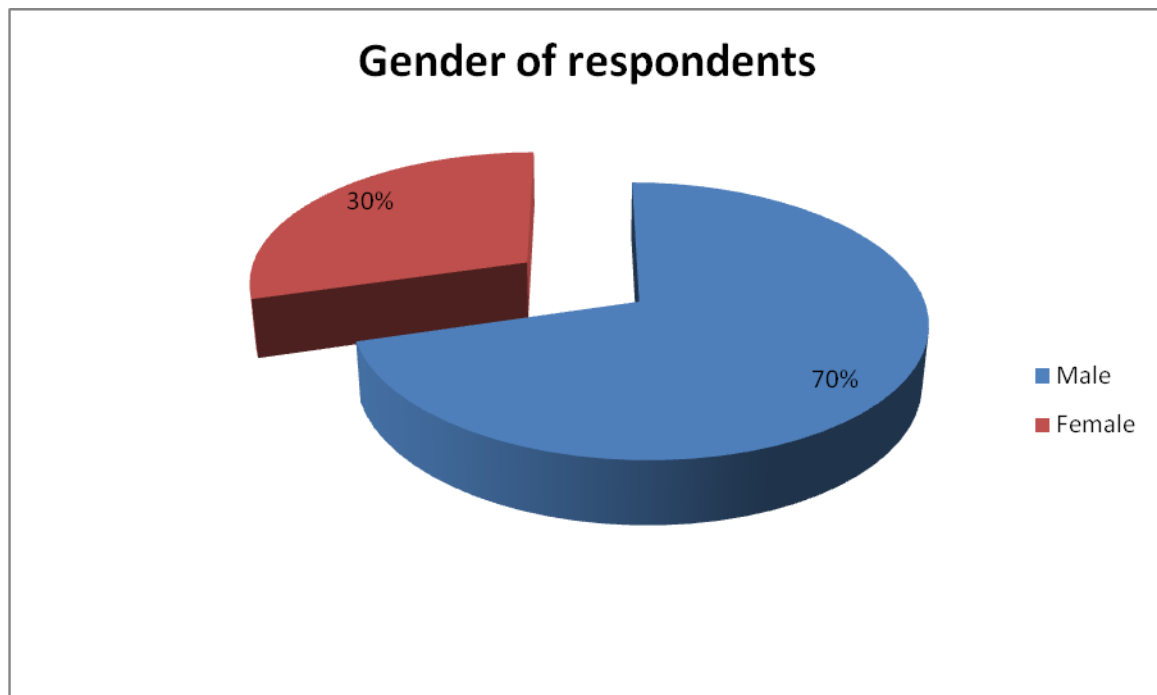
4.1 Quantitative data presentation and discussions

The background information of the respondents was found necessary because their ability to give satisfying information on the study variables is greatly dependent upon their background and as such, data has been collected on the samples and this has been presented below categorized into; gender, age, education levels, position held with the institution and the length of employment with the organization.

4.1.1 Gender of respondents

The study examines and describes the gender details of respondents in this study and details of their respective gender and is presented in the figure 4.1 below.

Figure 4.1 Gender of respondents



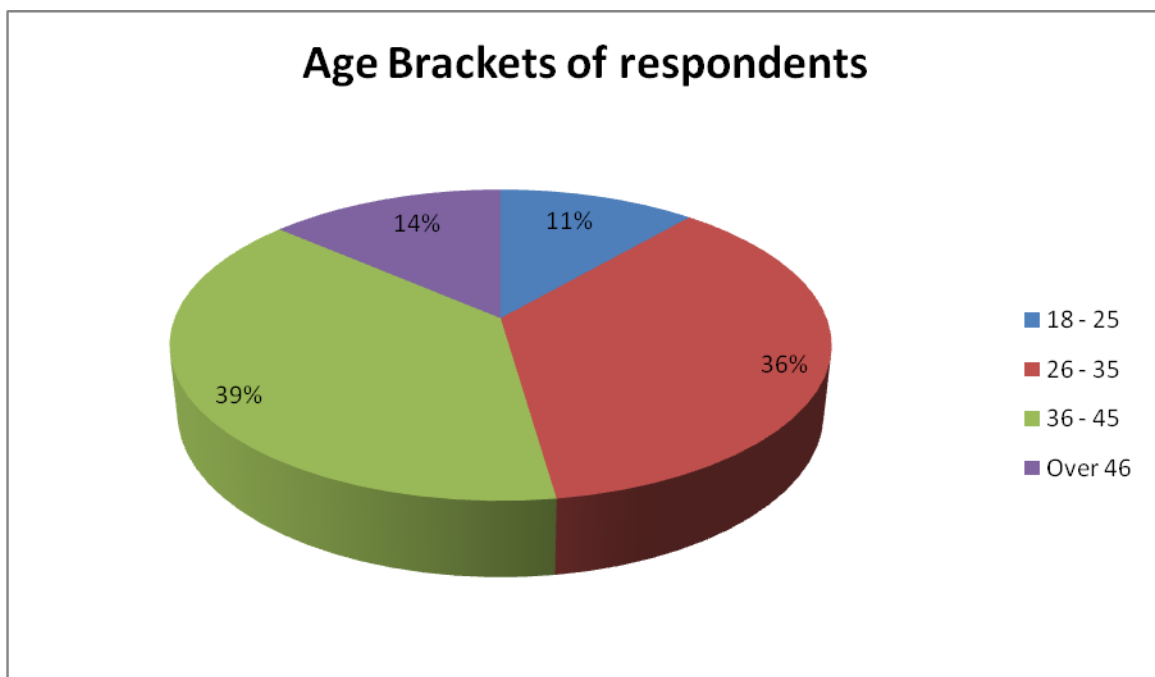
Source: *Primary data (2014)*

From the graph above, it was revealed that 31 respondents, comprising a percentage of 70% were male while 13 respondents, a percentage of 30% were female. This could be attributed to the number of females employed in financial institutions. The findings therefore present the views of two sex groups regarding internal control systems and the performance of financial institutions in Uganda. This was necessary for the study to have a balanced picture of respondents' views.

4.1.2 Age bracket of the respondents

The study obtained details about the age groups of the respondents for purposes of knowing and understanding their age and deduce their experience in their respective positions. Details of these findings are presented in the figure below.

Figure 4.2: Age bracket of the respondents



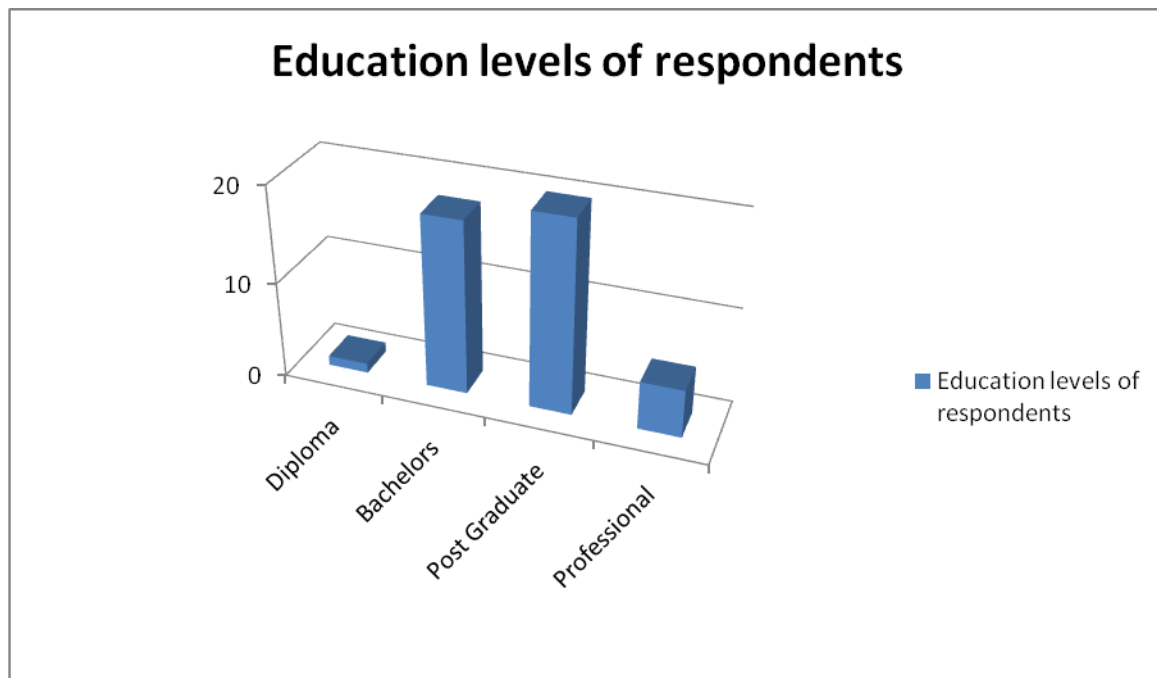
Source: *Primary data (2014)*

From the above description, it is clearly evident that the majority of the respondents were in the age bracket of 36 – 45 comprising a percentage of 39%, followed by that of 26 – 35 comprising a percentage of 36%, then those above 46, a percentage of 14% and lastly those in the age bracket of 18 – 25 comprising a percentage of 11%. It can thus be concluded that the majority of the respondents lie in the most productive age bracket and are reasonably experienced. This could be the lot that has probably attained their master’s degree and/ or professional course and have thus gained some experience.

4.1.3 Education Characteristics of respondents

Details of the education levels of respondents were obtained and the results are presented in the figure 4.3 below.

Figure 4.3: Education Characteristics of respondents



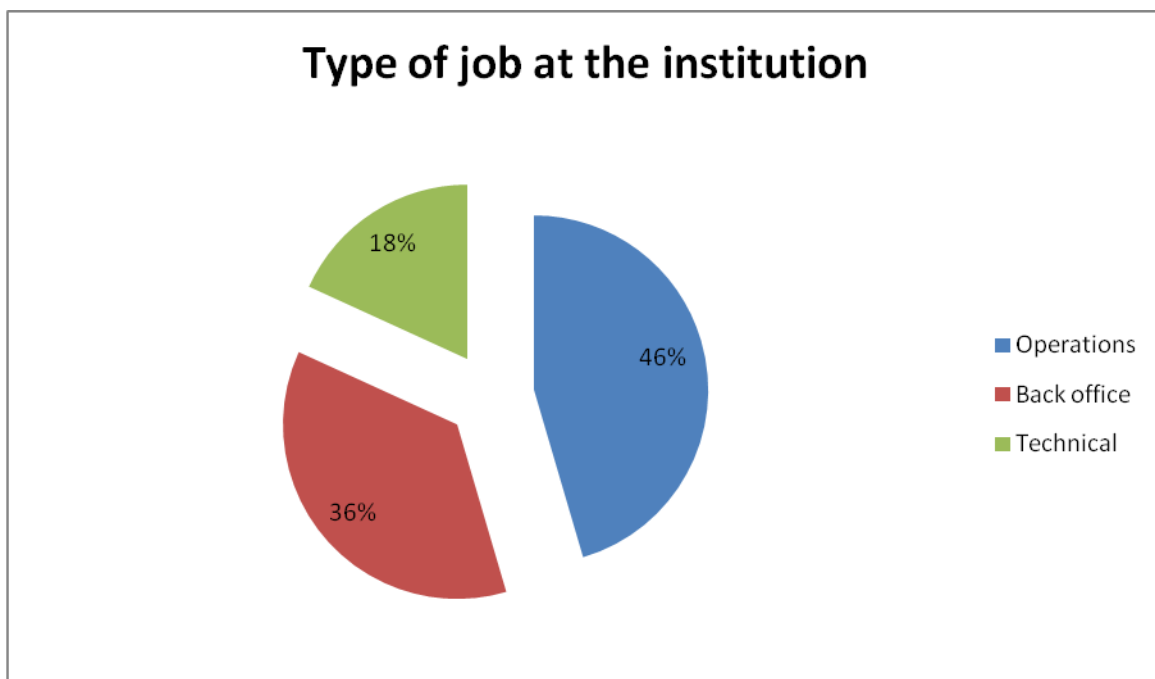
Source: *Primary data (2014)*

From the figure above, it can be deduced that the majority of the respondents held a post graduate qualification, followed by those that held a bachelors degree and then a professional qualification and diploma holders were the least in the orders twenty (20), eighteen (18), five (5) and one (1) respectively. This gave a picture that the employees of the institution under study were adequately qualified.

4.1.4 Type of your job at the financial institution

The study sought and obtained details about the positions held by the respondents in the institution for purposes of understanding their role in the variables of study. Details of the respondents and their positions are revealed in the figure below.

Figure 4.4: Type of job at the institution.



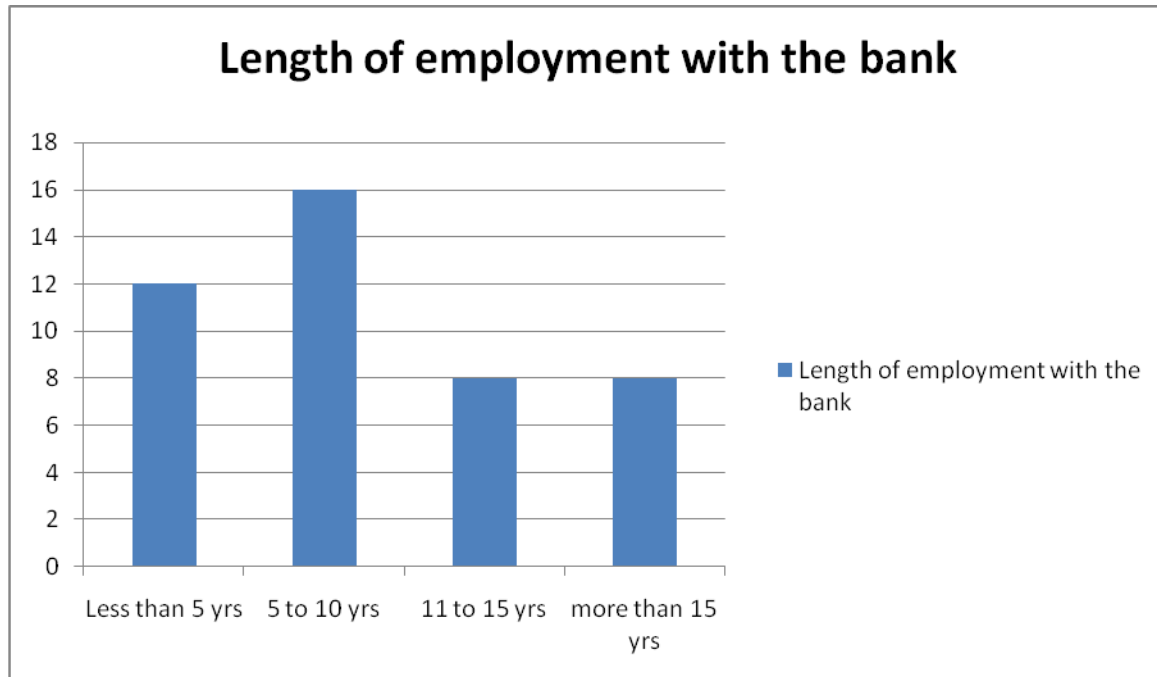
Source: *Primary data (2014)*

From the table above figure show that the majority of the respondents in the study lie in the operations section with a percentage of 46%, followed by those in the back office with a percentage of 36% and lastly those in the Technical section with a percentage of 18%. It can then be concluded that the majority of those in the institutions were those directly involved in the implementation of the Internal Control System.

4.1.5 Length of employment with the bank

This study examined the length of employment in years served by the respondents in the banking institution and the results are presented in the figure below.

Figure 4.5: Length of employment with the bank



Source: *Primary data (2014)*

From the figure above, it can be revealed that the majority of the respondents have worked with the institution for the period 5 to 10 years, 16 respondents a percentage of 36.4%, followed by those that had worked with the institution for a period less than 5 years, 12 respondents a percentage of 27.2% who were followed by those that worked for the periods of 10 to 15 years and more who were 8 respondents each, comprising a percentage of 18.2% each.

4.2 Establish the effect of control activities on the performance of financial institutions.

The study sets one of its objectives to establish the effect of control activities of financial institutions and the detailed are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references. Details of these are shown in the table below.

4.2.1 Descriptive Statistics on Control environment

Table 4.1 Mean and Standard deviation of Control environment

Control Environment	Min.	Max	Mean	S.D
Accounting and financial management systems	1	5	4.04	.762
Management is committed	2	5	3.66	.893
Management closely monitors	1	5	2.82	1.096
Management provides feedback	1	5	4.16	.846
Management's integrity in execution of their roles	1	5	3.70	1.061
Ethical values are upheld	1	5	3.53	.671
Independence of the audit committee	2	5	3.77	.910
Independence of directors and committees	1	5	3.98	.945

Source: *Primary data (2014)*

From the table 4.1 above, details of the measures of the effectiveness of the control environment under the very statements obtained from the respondents are indicated. These statements have been ranked in terms of their means and standard deviations so as to derive

meaning out of these results. The details of the whole table are discussed under each subheading of the corresponding statements tested.

4.2.1.1 Accounting and Financial Management System

From the table 4.1, the study revealed that the respondents seem to agree that Pride Microfinance Limited indeed has an accounting and financial management system in place with a mean value of 4.04 which is not far from the maximum ranking of 5. This thus indicated that the respondents generally agreed that an accounting system existed. The corresponding standard deviation also revealed a significant value of 0.762 which shows that there is a clear variation in the responses provided by these respondents about the existence of the accounting and financial management system. Having an accounting and financial management system as reflected by the above is therefore an indication of Whittington and Pany's requirement of preparing; verifying and distributing reports to the various management levels can be achieved.

4.2.1.2 Management is committed to the operation of the Internal Control System

Table 4.1 above indicates that respondents seemed to agree that management is committed to the operation of the Accounting and Financial management system as indicated by the mean value of

3.66; which is inclined towards the maximum point of 5 with a significant standard deviation of 0.893 suggesting varied responses regarding management's commitment to the Accounting & Financial management system. Management commitment to the operations of the Accounting and financial management system concurs with Whittington and Pany's assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization, which supports the assertion by Whittington and Pany that control environment is the foundation for all other components of

internal control. Management's commitment to the operations of the internal control system therefore is also supported by Verschoor, (1999) who he notes that "Internal control systems not only contribute to managerial effectiveness but are also important duties of the corporate boards of directors". Management Commitment to the operations of the system is therefore a fulfillment of their obligation as highlighted.

4.2.1.3 Management closely monitors implementation of Internal Control Systems

In Table 4.1 above, respondents create an understanding in line of how management closely monitors the implementation of the controls and their views reflect the mean of 2.82, a little above the mean average, showing their relative positive response, with a standard deviation of 0.943 suggesting significant diversions in responses as regards management's monitoring of implementation of internal control system. The finding is therefore are in line with Goodwin-Stewart & Kent (2006), and as well as Sarens & De Beelde (2006) who advocate for management (control environment) being the cornerstone for any effective Internal Control System. Sarens & De Beelde (2006) particularly emphasizes the "tone at the top, the level of risk and control awareness" as being critical to the success of an internal control system.

4.2.1.4 Management provides feedback to the junior officers

The results as reflected in table 4.1 show a mean of 4.16 which is way above the mean average, implying that respondents were in agreement with the statement regarding feedback to junior officers regarding the operation of the system with a standard deviation of 0.846 gives the affirmation that management gives feedback to junior officers. But this could depend on kind of feed back in question. The results are also inclined to Whittington and Pany (2001)'s requirement for management to include programs for preparing, verifying and

distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

4.2.1.5 Management acts with a great degree of integrity in execution of their roles

The results of the survey as shown in table 4.1 suggest that management acts with Integrity.

It is therefore evident when the mean of respondents (3.7) as computed by the system is well above the average (that is. 3.29) with the corresponding standard deviation of 1.061 suggesting that respondents had a significant variation in responses on management integrity in the execution of their role. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section are in tandem with Whittington and Pany (2001)'s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls.

4.2.1.6 Ethical values are upheld

According to table 4.1 results show that to a certain extent, ethical values are upheld in all management decisions as reflected by a mean value above average (3.53). However, even then the respondents seemed to have variations in their responses regarding ethical values in all management decisions as indicated by the standard deviation of 0.671. Upholding ethical values in management decisions is in line with Cohen et al. (2002) where they state that "the tone at the top refers to a company's ethical values, management's philosophy and operating style" which are reflected in the code of conduct or code of ethics. This is what Pride Microfinance Limited has put in place.

4.2.1.7 Independence of the Audit Committee

The analysis of results in Table 4.1 reveal a mean of 3.77, implying that the respondents were in agreement in line to the objectivity and independence of the Audit committees but the standard deviation of 0.901 depicts a significant variation in the opinions. Audit Committee's independence is in line with Whittington and Pany (2001)'s requirement for audit committees to be independent from the management of an institution and to possess the requisite experience and status. The independence and objectivity of the audit committee also rhymes well with (DeZoort et al., 2002; & Spira, 2002)'s statement that "the audit committee, as a subcommittee of the board of directors, plays a role in protecting the owners' interests by monitoring management's actions, in terms of financial reporting, risk management and internal control"

4.2.2 Descriptive Statistics on Control activities

Table 2: 4.2: Mean and standard deviation of Control Activities

Control Activities	Min	Max	Mean	S.D
PMF has policies and procedures that enable decisions to be made with appropriate approvals.	1	5	3.42	1.244
Processes exist to provide independent verification of a sufficient sample of transactions to ensure integrity of the decision making process.	1	5	3.08	.906
Processes exist in PMF to prove that there is ongoing and independent reconciliation of all balances, both asset and liability and on- and off balance sheet items.	1	5	3.47	.893
There are decision-making authorities for all risk taking areas separate from the reconciliation activities for those areas.	1	5	3.21	1.119
There are provisions in the personnel policies of the organization to provide for periodic rotation of staff duties.	1	5	3.34	.938
Dual controls over PMF's assets and separation of duties are provided for in the company's organizational structure.	1	5	3.35	1.060
PMF security system identifies and safeguard Institutional Assets	1	5	2.97	.971

Source: *Primary Data (2014)*

In the table 4.2 above the researcher set out to examine the functionality of the internal control systems in a financial Institution using communication and monitoring. The results were analyzed using mean and standard deviations so as to draw conclusions from the survey. The results are discussed under the various headings of the statements tested. These are discussed as follows;

4.2.2.1 Policies and procedures enable decisions to be made

The results of the survey as reflected in table 4.2 suggest that respondents agree there are policies and procedures that enable decisions to be made with appropriate approvals while executing control and monitoring functions. This is evidenced by a mean of 3.42 with a significant standard deviation of 0.974 a clear manifestation of varied responses from respondents as far the institution's policies and procedures are concerned. This is in line Gaskill (2000) who believes Information and communication systems enable all personnel to understand their roles in the control system, how their roles relate to others, and their accountability.

4.2.2.2 Processes exist to provide independent verification of a sufficient sample of transactions

The table 4.2 reveals that respondents agree that processes do exist to provide independent verification of a sufficient sample of transactions to ensure integrity of the decision making process. This is revealed by a mean value of 3.42, though it is not significantly far from the "not sure" position. The standard deviation of 0.836 reveals that there were varied responses from the respondents interviewed. This is inclined to what Richard and Janet (1997) contend that open channels of communication as a process, are necessary to allow information to flow throughout the entity and into the financial statements and thus management out to discuss the capture and its flow.

4.2.2.3 Risk taking areas are separate from the reconciliation activities

The results in table 4.2 suggest that respondents agree to a small extent that there are decision-making authorities for all risk taking areas separate from the reconciliation activities for those areas. This is revealed by a mean of 3.21 with a corresponding significant standard deviation of 1.119 suggesting that there were varied responses as far as this test concerned.

4.2.2.4 Personnel policies provide for periodic rotation of staff duties

The results as shown in table 4.2 above indicate that respondents agree that there are dual controls over the institution's assets and separation of duties provided for in the company's organizational structure as shown by a mean value of 3.16 a value not far from the midpoint position, implying that respondents were almost not sure as to whether there were indeed dual controls over the institution's assets and/ or the separation of duties in the institution. However, the standard deviation of 0.854 shows that there are very varied responses over the same. This is in line with Ray and Pany (2001)'s suggestion of separation of duties such that no one person should handle all aspects of a business transaction from the beginning to the end.

4.2.2.5 Security system on safeguard of Institutional assets

The results of the survey as reflected in table 4.2 suggest that respondents agree with the security system ability to identify and safeguard assets of the Institution as depicted by a mean value of 4.20 with a corresponding standard deviation of 0.738 also suggests that respondents varied relatively in their responses to the test statement. The failure by the system to identify and safeguard assets of the institution therefore augurs well with Ray and Pany (2001)'s recommendation for "physical controls" necessary to provide security over both records and other assets.

4.2.3 Descriptive Statistics on Information and communication monitoring

Table 3: 4.3: Mean and standard deviation of Information and communication monitoring

Communication and Monitoring	Min	Max	Mean	S.D
PMF has in place a system for close monitoring of various departments	2	5	3.42	1.244
PMF has a means of communication with departments operating payment and supervisory authorities	2	5	3.08	.906
PMF has a secured website or hotline to report suspected fraud, waste, and abuse anonymously.	2	5	3.47	.893
The Internal Control Systems communicate risk and control information to appropriate management.	2	5	3.21	1.119
The Internal Control System ensures adequate communication of audit activity to management and the board?	2	5	3.34	.938

Source: *Primary data (2014)*

In the Table 4.3, the researcher set out to examine the Information and Communication monitoring function as a way of examining the functionality of the internal control systems. The test statements were equally ranked in terms of their mean and standard deviation as a way of interpreting the results. The details of the survey in this regards are discussed under the sub headings of the corresponding statements tested as follows;

4.2.3.1 PMF has in place a system for close monitoring of various departments

The results of the survey as reflected in table 4.3 suggest that respondents agree that the institution has in place a system for close monitoring of various departments. This is illustrated by the mean of 3.42. However a significant standard deviation of 1.244 is a clear manifestation of varied responses from respondents as far as clear the existence of a system for close monitoring of various departments is concerned. This is in line with Steihoff (2001) asserts that information should recorded and communicated to management and others within the organization who need it in a form and within a time frame that enables them to carry out their internal control and operational responsibilities which needs close monitoring.

4.2.3.2 PMF has a means of communication with departments operating payment and supervisory authorities

To results of the survey as reflected in table 4.3 suggest that respondents were indifferent as to whether PMF has a means of communication with departments operating payment and supervisory authorities as revealed by the mean value 3.08. However, a standard deviation of 0.906 shows varied responses from the respondents interviewed. This indicates that the institution ought to prepare accurate and timely reporting

4.2.3.3 PMF has a secured website or hotline to report suspected fraud, waste, and abuse anonymously

The table 4.3 reveals that respondents agree that PMF has a secured website or hotline to report suspected fraud, waste, and abuse anonymously. This is revealed by a mean value of 3.47, though it is not significantly far from the “not sure” position. The standard deviation of 0.893 reveals that there were varied responses from the respondents interviewed in regard with whether the institution has in place a secured website and/ or hotline

4.2.3.4 The ICSs communicate risk and control information to appropriate management

The results in table 4.3 above reveal that respondents agree that ICSs communicate risk and control information to appropriate management as depicted by a mean value of 3.21. This value is close to the midpoint position, implying that respondents were almost not sure as to whether ICSs communicate risk and control information to appropriate management is taken to address weaknesses. However, a significant standard deviation of 1.119 shows that there are very varied responses as far as responses to this control test was concerned.

4.3 Descriptive statistics on Organizational Performance

Table 4.4: Mean and Standard deviation on organizational performance

Statement	Min	Max	Mean	S.D
The company is now in a better position to serve clients more efficiently and effectively	1	5	1.97	1.213
Effectiveness is measured through quality of services delivered	1	4	2.59	.956
The company is able to build customer satisfaction through quality services	1	5	2.64	1.046
Performance of the company results from assets finance, employee skills and processes involved in delivery of services	1	5	2.97	1.142
There is evaluation and discussion of the organizational performance annually by management	1	5		

Source: *Primary Data (2014)*

4.3.1 Company now in a better position to serve clients more efficiently and effectively

Table 4.4 above shows that respondents believe that the Financial Institution is not as such in a better position to serve clients more effectively and efficiently. This is revealed by a mean value of 1.97. However, a significant standard deviation value of 1.213 under the same test revealed varied responses from the respondents interviewed. This therefore doesn't necessarily rhyme with what Palmer (1993) emphasizes that performance in organizations is looked at in terms of economy, efficiency and effectiveness where economy and efficiency are usually measured in financial terms and data such as costs, volume of sales and productivity are used.

4.3.2 Effectiveness is measured through quality of services delivered

From table 4.4 above, it can be revealed that Effectiveness is measured through quality of services delivered. This is revealed by a mean value of 2.59 although the corresponding standard deviation of 0.956 under the same test revealed varied responses from the respondents which is in agreement with Druker (1999).

4.3.3 The company is able to build customer satisfaction through quality services

From the information collected from respondents according to table 4.4 above, it clear that all company is unable to build customer satisfaction through quality services. This is revealed by a mean value of 2.64 with a corresponding standard deviation of 1.046 revealing varied responses from the respondents interviewed over the same test. The information revealed could be an explanation as to the laxity in their customer care and / or public relations something in line with what Monaghan (1987) observed.

4.4 Relationship between Internal Control systems and financial performance

The relationship between internal control systems and the performance of financial institution in Uganda was investigated using, control activities, information and communication monitoring and control environment as dimensions for internal control systems while profitability, quality of service and growth in clientele were for the organizational performance.

Table 4.5 Pearson’s Correlation Analysis

		1	2	3	4	5	6
1	Control activities	1					
2	Information and communication monitoring	0.217*	1				
3	Control Environment	0.301**	0.502*	1			
4	Profitability	0.294**	0.091*	0.291**	1		
5	Quality of service	0.338*	0.447**	0.411**	0.094**	1	
6	Growth in Clientele	0.276*	0.389**	0.299**	0.179**	0.266**	1

** $\sigma=0.01$ (correlation is significant at 0.01 level (2-tailed))

* $\sigma=0.05$ (Correlation is significant at 0.05 level (2-tailed))

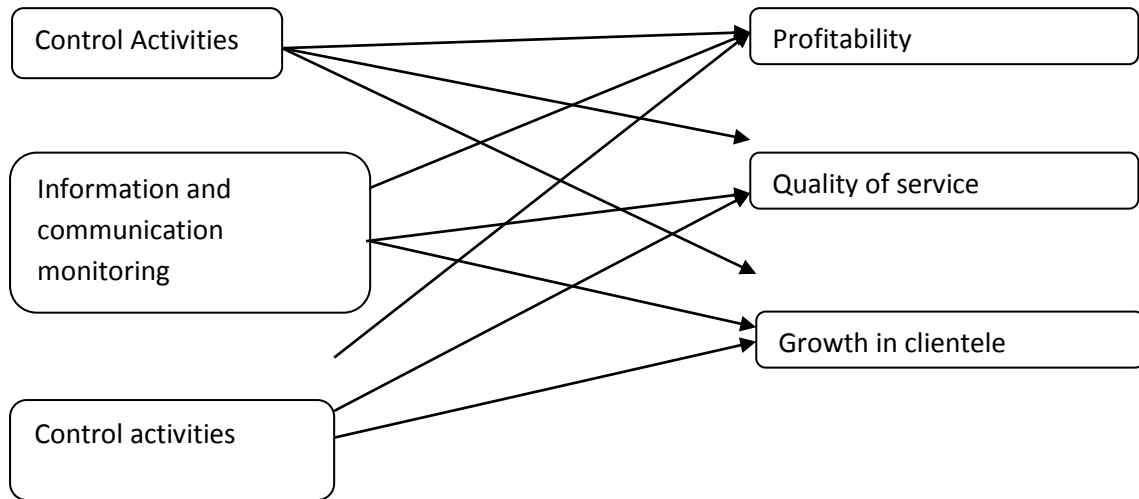
Source: *Primary data (2014)*

The correlation table 4.5 above presents the relationship between dimensions of Internal Controls measured by control activities, information and communication monitoring and control environment against the performance of the organization, measured by profitability, quality of service and growth in clientele. The results show that all the dimensions relate positively.

Specifically, control activities relates positively with profitability, quality of service and growth in clientele. ($r = 0.294$, $p < 0.01$; $r = 0.338$, $p < 0.01$; $r = 0.276$, $p < 0.01$) respectively.

These suggest that the control environment relates positively with financial performance.

Figure 4.6 Relationship between Internal control systems & performance of Financial Institutions



Internal Control systems

Performance of Financial Institutions

4.4.1 Control Activities is related with performance of financial institution

Table 4.5 above shows that the control activities is positively related to profitability with $r = 0.294$ and standard error, $p < 0.01$, the control activities is positively related with Quality of service with $r = 0.338$ and standard error, $p < 0.01$, and the control activities is positively related to growth in clientele with $r = 0.276$ and $p < 0.01$. The results seem to agree with Ray and Pany (2001)'s assertion of the control activities being policies and procedures that help ensure that management directives are carried out and hence comprise performance reviews.

4.4.2 Information and communication monitoring and performance of financial institutions

The results in table 4.5 indicate a positive relationship between information and communication monitoring and profitability with $r = 0.091$ and $p < 0.01$, information and communication monitoring is positively related to Quality of service with $r = 0.447$ and $p < 0.01$, and also positively related to Growth in clientele with $r = 0.389$ and $p < 0.01$.

The results seem to agree with what DiNapoli (2007)'s assertion that management ought to ensure that good communication channels exist to carry information to people who need it throughout the organization.

4.4.3 Control Environment and organizational performance

Results in table 4.5 above indicate a positive relationship between control environment as a component of internal control systems with profitability, $r = 0.291$ with a standard error, $p < 0.01$. Control environment further relate positively with quality of service, $r = 0.094$ with a standard error, $p < 0.01$ and with growth in clientele, $r = 0.299$ with a standard error, $p < 0.01$.

The results seem to agree with Whittington and Pany's assertion of the control environment setting the tone of the organization. The control environment (as reflected by the audit committee) is what DeZoort et al., (2002) referred to as "protecting the owners' interests by monitoring management's actions, in terms of financial reporting, risk management and internal control".

4.5 Qualitative Data presentation

Interview guide

In trying to assess the role of internal control systems on the performance of financial institutions, the researcher conducted a number of interviews with key informants in the institution under study. These included both the top and middle management members. Results of the interview are summarized here below under the respective questions asked.

4.5.1 The Institution operate systems of internal controls

The research examined and interviewed a number of key informants as to whether the organization operates systems of internal control. The respondents seem to agree that the internal auditor role is supporting systems of internal control. They also concur that the internal auditor advises management. He further gives assurance to management that the systems of internal control put in place are functioning.

Similarly, they believe that the Institution operates a system of internal control; implementing strategic plans and measuring actual performance against budgets, stating priorities and implementing them on an annual basis through the budgeting process, ensuring policies and procedures are followed in all financial operations of the bank, safeguarding assets through the maintenance of a fixed assets register and updating it regularly.

Additional support points out that the institution appoints the right people for the right positions, drafting policies, and enforcing policies through staff. Watching over and ensuring quality control through module writing, assessing modules, supervising staff, clearly guiding staff, and evaluating performances, authorization of expenditure, sanctioning expenditures, and supervision of other staff.

4.4.2 Institution has adequate liquidity to meet its obligations

The respondents agree that availability of funds is critical in implementing the Institution's activities, for instance; carrying out field trips to disburse and collect loan payments. While they also pointed out other critical measures which include; Assets utilization, meeting the critical needs of the institution for example; good salaries, staff mobility whilst on duty, Housing, Library. Others stress that the best measure is to ensure satisfaction in the most active departments like loans which are the pivotal areas of the institution through provision of the best equipment, remunerations etc.

CHAPTER FIVE

SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents summaries of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.1 Demographic characteristics

The findings from the demographic characteristics of the respondents from the research revealed that the majority of the respondents were male comprising a percentage of 70% while the females comprised only 30%. Concerning the age bracket of the respondents, the biggest number of respondents fell in the age bracket of 36 - 45 comprising a percentage of 39% while those that lay in the next category were those in the age bracket 26 - 35, a percentage of 36%.

Regarding the education levels of the respondents, those that were post graduates were the majority with a percentage of 45.4% followed by those that had only bachelor's degrees with a percentage of 34.1%.

The findings also revealed that regarding the length of employment with the bank the majority of respondents fell in the category of 5 - 10 years making a percentage of 52.6% while regarding with the type of job at the bank operations section carried more respondents with a percentage of 46% and 36% lying in the back office.

5.3 Summary findings

This part presents the summarized results and interpretation (findings) based on the findings established in chapter four.

5.4 Internal control system and performance of financial institution

The study found out that management of the bank is committed to the controls of the Institution and they actively participate in monitoring and supervision of the activities of the bank. The study also reveals that all the activities of the bank are initiated by the top level management. Regarding control activities, the study found that, there is a clear separation of roles, supervision of activities by senior staff, weaknesses that are realized are addressed, and there is a training program for capacity building in the bank. However, the study also found out that there is limited information sharing in the bank and also there are security measures put in place to safeguard the assets of the bank since it is a money dealing institution.

The study examined and established a significant relationship between internal control system and the performance of the bank. This relationship was examined through the dimensions of internal control systems and that of the performance of the financial institutions selected for this particular study. The dimensions of internal control systems (control environment, control activities, and information and communication monitoring) were linked to the dimensions of performance (Profitability, quality of service and growth in clientele). Details show that Control environment as a component of internal control systems with profitability, ($r = 0.291$, $p \leq 0.0$), $r = 0.291$ with a standard error, $p < 0.01$. Control environment further relate positively with quality of service, ($r = 0.094$, $p < 0.01$) and with growth in clientele, ($r = 0.299$, $p < 0.01$).

Similarly, the study found that control environment as a dimension of internal control system, is related with all the dimensions of performance of financial institutions in the following details; Control environment and profitability are related ($r = 0.091$, $p \leq 0.01$), internal audit is related with accountability ($r = 0.447$, $p \leq 0.01$), and internal audit and reporting have significant relationship ($r = 0.389$, $p \leq 0.01$).

In addition, control activities as a dimension of internal control system and all the dimensions of financial performance are related; control activities and liquidity are related ($r = 0.291$, $p \leq 0.01$), control activities and accountability are related ($r = 0.411$, $p \leq 0.01$), and control activities and reporting are related ($r = 0.299$, $p \leq 0.01$).

5.5 Conclusions

Based on the findings of the study, it is concluded that the microfinance institute has an effective internal control system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management.

5.6 Recommendations

There is a significant positive relationship between internal control system (control environment, information and communication monitoring and control activities) and the performance (profitability, quality of service and growth in clientele).

The bank also, ought to ensure that it strengthens strategies aimed at improving the performance of the organization in all categories of staff and this should continuously be used to ensure that performance levels are satisfactory.

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APPENDICIES

Appendix 1: Questionnaire

I am Nyamata Lindah, a student of Uganda Martyrs University pursuing a Bachelors of Business Administration and Management. This survey is conducted with the purpose of measuring internal control effects on performance of financial institutions using Pride Microfinance Limited, Fort Portal Branch, as the case study. The study is purely for academic purposes and the information given will be treated with utmost confidentiality. I therefore, humbly request you to spare some time and answer the following questions.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

Please check the appropriate box – only one per question.

No.	Question	Code
1.	Gender	Male <input type="checkbox"/> Female <input type="checkbox"/>
2.	Age	18-25 <input type="checkbox"/> 26-35 <input type="checkbox"/> 36-45 <input type="checkbox"/> Over 46 <input type="checkbox"/>
3.	Education Levels	Diploma <input type="checkbox"/> Bachelors <input type="checkbox"/> Post Graduate <input type="checkbox"/> Professional Qualification <input type="checkbox"/>
4.	Type of bank you work	Licensed Commercial Bank <input type="checkbox"/> Licensed Specialized Bank <input type="checkbox"/>

5.	Type of your job at the bank	Operations (Direct involvement with customer)	<input type="checkbox"/>
		Back office (Disbursements/ audit/ research)	<input type="checkbox"/>
		Technical (Legal/ IT)	<input type="checkbox"/>
6.	Length of employment with the bank	Less than 5 years <input type="checkbox"/> to 10 years	<input type="checkbox"/>
		10 to 15 years <input type="checkbox"/> more than 15 years	<input type="checkbox"/>

SECTION B: Effectiveness of Internal Controls in PMF

For each item, please select one of the 5 options in the columns to the right.

1: Strongly Disagree; 2: Disagree; 3: Neutral; 4: Agree; 5: Strongly Agree.

	Control Environment	1	2	3	4	5
1.	The firm has Accounting and financial management systems					
2.	Management is committed to the operation of the internal control system					
3.	Management closely monitors implementation of Internal control systems in our institution					
4.	Management provides feedback to the junior officers about the operation of the internal control system					
5.	Management acts with a great degree of integrity in execution of their roles					

6.	Ethical values are upheld in all management decisions					
7.	The firm has an objective, independent and active audit committee					
8.	Our board of directors and its committees are independent of management					
9.	Segregation / separation of roles can lead to minimization of costs					
10.	Segregation / separation of roles can lead to attainment of set objectives.					

For each Item please select one of the 5 options in the columns towards right.

1: Strongly Disagree; 2: Disagree; 3: Neutral; 4: Agree; 5: Strongly Agree.

	Control Activities	1	2	3	4	5
1.	PMF has policies and procedures that enable decisions to be made with appropriate approvals.					
2.	Processes exist to provide independent verification of a sufficient sample of transactions to ensure integrity of the decision making process.					
3.	Processes exist in PMF to prove that there is ongoing and independent reconciliation of all balances, both asset and liability and on- and off balance sheet items.					
4.	There are decision-making authorities for all risk taking areas separate from the reconciliation activities for those areas.					
5.	There are provisions in the personnel policies of the organization to provide for periodic rotation of staff duties.					
6.	Dual controls over PMF's assets and separation of duties are provided for in the company's organizational structure.					
7.	PMF security system identifies and safeguard Institutional Assets					

	Communication and Monitoring					
1.	PMF has in place a system for close monitoring of various departments					
2.	PMF has a means of communication with departments operating payment and supervisory authorities					
3.	PMF has a secured website or hotline to report suspected fraud, waste, and abuse anonymously.					
4.	The Internal Control Systems communicate risk and control information to appropriate management.					
5.	The Internal Control System ensures adequate communication of audit activity to management and the board?					

SECTION C: Organizational performance

For each Item please select one of the 5 options in the columns to the right.

1: Strongly Disagree; 2: Disagree; 3: Neutral; 4: Agree; 5: Strongly Agree.

	Statement	1	2	3	4	5
1.	The company is now in a better position to serve clients more efficiently and effectively					
2.	Effectiveness is measured through quality of services delivered					

3.	The company is able to build customer satisfaction through quality services					
4.	Performance of the company results from assets finance, employee skills and processes involved in delivery of services					
5.	There is evaluation and discussion of the organizational performance annually by management					

Thank you for the co-operation.

Appendix II: Interview Guide

Internal control systems on the performance of financial institutions

1. In your opinion, does the Institution operate systems of internal controls? If so how does your role support it?
2. Are the systems of internal controls referred to in 1 above functioning as they are intended to?
3. In your opinion, do you think your institution has adequate liquidity to meet its obligations as and when they fall due? Please give any reasons to justify the situation.
4. In your opinion, is the Accountability process adequate in your organization? Give reasons.
5. Are there procedures put in place to ensure that internal controls are followed? If yes, how effective are they?
6. Do employees comply with the code of conduct? If yes, how is it done?
7. How effective is information and communication monitoring to internal control systems?
8. How often the bank property / documents are often audited?
9. Is management in position to over ride control and ignore stiff competition from competitors?

Thanking you for your participation.