THE ROLE OF FINANCIAL INTERNAL CONTROLS ON THE FINANCIAL PERFORMANCE OF CREDIT INSTITUTIONS

Case of PostBank. Masaka Branch

An undergraduate dissertation presented to the Faculty of Business Administration and Management in partial fulfillment of the requirements for the award of the degree of Business Administration and management of Uganda Martyrs University

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DEDICATION

This dissertation is dedicated to my Parents Mr. Tushemereirwe Fred and Mrs. Alice Tushemereirwe. I also dedicate it to my wife Ms. Nakyeyune Teddy and my children Joel, Julian and Judith. I also dedicate it to all staff of PostBank Masaka Branch for their time given to me while carrying out this research, my friends Joseph, Judy, Moureen, Dennis, Josephine, Daisy, Christine, Bruno, Sulai and Robert without their encouragement, this research work could not have come to a successful end.

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ABSTRACT

The purpose of the study was to find out the role of financial internal controls on the performance of credit institutions. The objectives of the research study were to find out the effects of financial internal controls on investment growth in credit institutions in credit institutions, the effect of financial internal controls on market share growth in credit institutions and contributions of financial internal controls towards total loans in credit institutions. The research design adopted in this study was a case study design. The study population included the staff of PostBank, Masaka branch, a total of 32 respondents were selected for the study. Simple random sampling was used to select respondents in the field. The questionnaires were used and administered to the employees working with the bank. Data from the questionnaires was coded, entered, edited for consistency and easiness in and later analyzed using Microsoft excels program/Spreadsheet where pie – charts, correlation and bar graphs were constructed to establish the relationship that existed between the financial internal controls and the performance of credit institutions. Regarding the study findings, it was revealed that financial controls had a significant relationship with the employees' performance. The researcher recommended that there was a need to train workers of the organization control systems in order to ensure effective and principally conduct to control activities. The management of the bank would have to ensure proper collective decision making and feedback management that explores participation of stakeholders which would enhance appropriateness in suggestions. Areas of further research were as follows; impact of employee training on organizational financial performance of banking sector, impact of job rotation on employee performance and impact of integrated financial management systems of level of service delivery.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The broad area of the study under which my proposal falls is in the role of financial internal controls on the financial performance of credit institutions. This examined the background of the study, problem statement, purpose of the study, objectives of the study, research questions, and scope of the study, the significance of the study and the conceptual frame work.

1.2 Background of the study

1.2.1 Conceptual Background of the Study

Internal controls are basically systems of checks and balances. The purpose is to keep the organization moving along the desired lines as per the wishes of the owners and to protect assets of the business. Internal controls have received attention from auditors, managers, accountants, fraud examiners, and legislatures. Internal controls are also affected by changes in business and information technology. As such, the sophistication, scope, and interpretations of internal controls have evolved over the years. Internal controls do not have a standard definition, standard objective, and a single owner. . However, the presented definition of internal control concept has been constantly improved, and now days there is quite an extensive set of conceptions that indicates the system of internal control as one of the means of leadership to ensure safety of enterprise assets and its regular development.

1.2.2 Theoretical Background of the Study

In the modern business world, the term "Internal Control" is being used to refer to two basic concepts: the Internal Control System and the Internal Control itself. As a concept, Financial Internal Control is distinguished by its scope and its high level of the services offered. Through an extended literature review, there was an attempt to approach theoretically its role on the performance of credit institutions. Financial Internal Controls is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information of credit institutions (Meigs, 1984; Papadatou, 2005). According to Cook and Wincle (1976), the Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

1.2.3 Contextual Background of the Study

Historical development of internal control as individual enterprise system is not as broad as other management spheres in science directions. The definition of internal control was presented for the first time in 1949 by the American Institute of Certificated Accountants (AICPA). It defined internal control as a plan and other coordinated means and ways by the enterprise to keep safe its assets, check the covertness and reliability of data, to increase its effectiveness and to ensure the settled management politics. Such a significant law as that of Sarbanes–Oxley has dearly shows that not only the internal control system must be concretized and clearly defined, but also the means of implementing the internal control system and assessing their effectiveness must be covered. The concept of internal control was further improved by such Lithuanian and foreign

scientists as A. Сонин (2000), D. Robertson (1993), M.R. Simmons (1995), I. Toliatienė (2002), and V. Lakis (2007).

1.2.4 Historical Information with Credit Institutions

According to the Uganda Cooperative Development Policy (2002), the history of credit institutions in Uganda dates back to 1925 when the Coffee Native Planters Association was formed. After independence, the government policy was to make the credit institutions movement an engine for poverty eradication.

Through a number of legislations, credit institutions were systematically promoted as an important tool for transforming community production. Changes in the macro-economic policies which started in the 1980s aimed at introducing free market and trade liberalization policies, in turn led to the ongoing efforts to make credit institutions member-based organizations (URU, 2002). In the history of Cooperative movements and liberalization of the banking sector in Uganda particularly from 1990's, Savings and Credit Institutions took up the role of cooperative financial institutions with the main objective to substitute the commercial banking system. They encourage a saving habit to members and provide loans to them at more favorable conditions compared to commercial banks.

The stringent conditions attached to loan by formal financial institutions and the inability of funds made available by existing banks to reach the poor segment of the population have increased the relevance of the informal financial institutions (Yusuf and Ijaiya, 2009). This underscores the relevance of cooperatives in the provision of funds to members at affordable and low interest rate. Elhiraika (1999) has noted that lending by traditional formal financial institutions to small borrowers in developing countries is often limited due to collateral requirement and high interest

rates. Cooperatives assist their members financially by providing loans at low interest rate for start-up capital or for business expansion thereby promoting entrepreneurial activities. The interest rate charged by them is usually lower compared to what obtains in the formal financial institutions. Since members do not require any collateral securities to access loans, (it is assumed that a member's shareholding is his/her collateral) loan procurement is made easier and almost stress free. The staff cooperatives in most organizations are formed to bridge this gap and help members have access to credit, which enable them to acquire the basic necessities of life and to improve their standard of living (Azeez, 2011), to start a business, pay medical bills, further their education or sponsor education of their children (Wanyama, Develtere and Pollet, 2008).

1.2.5 Financial Services and Financial Internal Controls

Internal controls are critical for the success of organizations and the quality of services provided by organizations to their clients. Bearing that in mind it is important that organizations' pay extra attention to their financial internal controls employed by the employees and employers in order to attain optimum efficiency and effectiveness at the workplace (COSO, 1992; Сонин, 2000; INTOSAI, 2004; CobiT, 2007; Toliatienė, 2002; Coco, 1995). C.J. Buck, J.B. Breuker (2008). Despite the fact that organizations such as Post bank in Uganda have had fully fledged financial internal controls that have been brought into coordination with the rest of other financial matters, a lot of financial problems still emanates that ultimately manifests in unsatisfactory financial management. For example: According to Annual Report and Financial Statements (2014) for Post Bank, one of the main risks incurred by the bank arises from extending credit to customers through trading and lending operations. Beyond credit risk, Post Bank is also exposed to a range of other risk types such as market, liquidity, operational, pension, reputational and other risks that are inherent to its strategy, product range and geographical coverage. Consequently, financial

institutions in Uganda have continued to fail to achieve their aims and objectives due to poor performance of these financial internal controls. With this therefore effective financial internal controls for risk management are fundamental for such financial institutions to be able to generate profits consistently and sustainably and are thus a central part of the financial and operational management of the Bank.

In other words a conclusion can be drawn from these facts that the strength of any organization is in its workforce and the financial internal controls implemented. An organization that does not have well performing and dedicated financial internal controls has a poor foundation to exist in a sound operational manner. This implies that financial internal controls need to be treated with great care, since they are a special resource that needs to be given special managerial attention and time (Storey, 2001:6). This therefore makes it appropriate through research, for the factors affecting workers performance to be identified and appropriate measures to be taken to revive the financial organizations, to avoid negative consequences that may affect the future functional ability of the organizations. The main idea is that it is human capability and commitment with these financial internal controls properly implemented which ultimately differentiate successful organizations from those that fail (Storey, 2001:6).

1.2.6 Brief history of PostBank

According to the CEO Magazine (Kampala), retrieved 5- June- 2014. PostBank Uganda has been in existence since 1926. It started out as a department in the Post Office. In February 1998, Post Bank Uganda Limited was incorporated in accordance with the Communications Act of 1997 to take over the operations of the former Post Office Savings department. After which it was incorporated under the Companies Act in February 1998 as a limited liability company. The bank's

operations are supervised by the Bank of Uganda under the Financial Institutions Act 2004. It is classified as a Tier II Institution (Non-Bank Credit Institution), by the Bank of Uganda. The activities of PostBank Uganda are directed by the board of directors, the current chairman of the board Ms. Grace Bakunda. The managing director is Mukweli Stephen (FUIB) and the Bank has two chief executive officers, Hajat Safina Wabuna in charge of ICT and operations and Mr. Kayayo Alex in charge of Credit and Business Growth. The current board was installed in 2014 for a five-year term.

PostBank Uganda (PBU) - Masaka Branch is located in Masaka, Uganda. Company is working in Banks, credit unions, financial activity business activities. According to the report, PostBank is a non – bank credit institution in Uganda. Its activities are supervised by the bank of Uganda, the country's central bank and national banking regulator. As of May 2014, PostBank Uganda maintained a branch network of 40 brick and motor branches and 17 mobile banking units, totaling 57 branches. Among the 40 brick and motor branches are the; Arua branch- Arua, Bombo branch - Bombo, Bugolobi branch - Bugolobi, Entebbe branch - Entebbe, Masaka branch - Maska, Fort portal branch – Fort portal town, Gulu branch – Gulu District, Hoima branch – Hoima District among other fixed branches. The mobile banking unit includes the following in relation to their towns and districts location; Budaka – Budaka district, Bududa – Bududa district, Kamwenge – Kamwenge district among other mobile branches.

1.3 Statement of the Problem

Despite the fact that organizations such as Post bank in Uganda have a fully-fledged financial internal control system that has been brought into coordination with the rest of other financial matters, a lot of financial problems still emanate that ultimately manifests in unsatisfactory financial management. For example: According to Annual Report and Financial Statements (2014)

for Post Bank, one of the main risks incurred by the bank arises from extending credit to customers through trading and lending operations. Beyond credit risk, credit financial institutions such as Post Bank are exposed to a range of other risk types such as market, liquidity, operational, pension, reputational and other risks that are inherent to its strategy, product range and geographical coverage. Consequently, financial institutions in Uganda have continued to fail to achieve their aims and objectives due to poor performance of these financial internal controls.

Effective financial internal controls for risk management are fundamental for credit financial institutions to be able to generate profits consistently and sustainably and are thus a central part of the financial and operational management of the Bank. Because of this, an organization that does not have well performing and dedicated financial internal controls has a poor foundation to exist in a sound operational manner. This therefore makes it appropriate through research, for the factors affecting financial internal controls to be identified and appropriate measures to be taken to revive the financial organizations, to avoid negative consequences that may affect the future functional ability of the organizations. The main idea is that it is human capability and commitment with these financial internal controls properly implemented which ultimately differentiate successful organizations from those that fail (Storey, 2001:6).

1.4 Purpose of the Research Study

The purpose of the study was to examine the role of financial internal controls on financial performance of credit institutions in Uganda - Masaka district.

1.5 General Objective of the Study

The overall objective of the study was to examine the role of financial internal controls on the financial performance of credit institutions in Uganda.

1.5.1 Specific objectives of the Research Study

- To establish the effect of financial internal controls on investment growth in credit institutions
- To assess the effect of financial internal controls on market share growth in credit institutions
- To assess the contribution of financial internal controls towards delinquent/total loans in credit institutions.

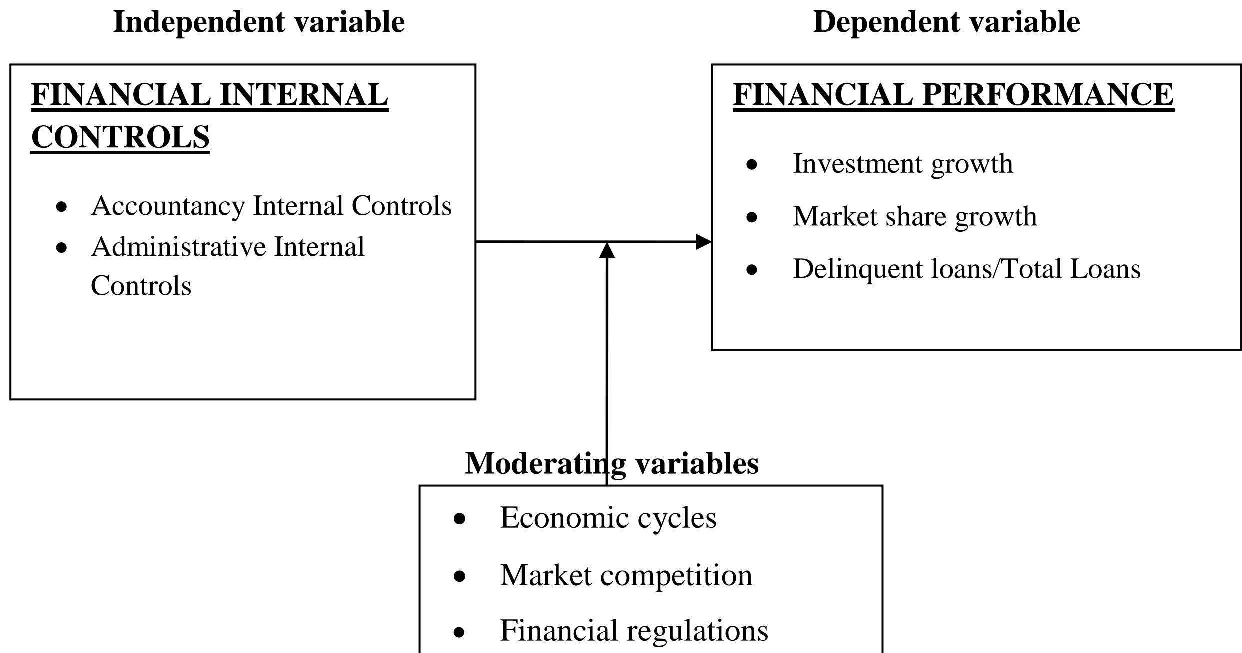
1.6 Research Study Questions

- What is the effect of financial internal controls on the investment growth in credit institutions?
- What is the effect of financial internal controls on market share growth in credit institutions?
- What is the contribution of financial internal controls towards delinquent/total loans in credit institutions?

1.7 Conceptual Framework

Credit institutions have to employ several financial internal controls in order to have a better performance. Financial Internal controls are wide and numerous, for the sake of this study, Financial Internal controls was limited to; Accountancy Internal Controls and Administrative Internal Controls whereas Financial performance was looked at basically from the three perspectives of : Investment growth, Market share growth and Delinquent loans/Total Loans (Sharma,et al (2016)).

Figure 1, Relationship between variables



Source: Modified by the researcher using the knowledge of Sharma,et al (2016)

1.7.1 Description of Conceptual framework

The figure 1 above reflects how the financial internal controls (Independent variable) which include Accountancy and Administrative Internal Controls which comprises of safeguards to control assets, accuracy of financial records, risk assessment, restraining lending, if used appropriately can lead to good financial performance of credit Institutions (Dependent variables) such as Investment growth, Market share growth, and Delinquent loans/Total Loans. Therefore the relationship is affected by Economic cycles, Market competition, financial regulations which are the intervening variable. However for the purposes of this study the intervening variables will not be considered since they are macro factor beyond the scope of this study.

1.8 Scope of the study

1.8.1 Geographical scope

The study focused on PostBank Masaka branch along Edward Avenue Street in Masaka Municipality Masaka District.

1.8.2 Time scope

The study considered information relating to the period of three years that is 2015-2018 in order to capture previous and latest statistics and trends to ensure reliability and validity for the presented findings. The study done between may 2015 to May 2018. Furthermore, the time was enough to provide more information for the study upon which conclusions and recommendations are based.

1.8.3 Content scope

The Research Study was intended to find out the role of financial internal controls on the performance of credit institutions in PostBank Masaka branch, Masaka district. The Research Study also aimed at finding out the financial internal controls employed by credit institutions in improving the financial performance, finding out how the effectiveness of the credit institutions, the challenges facing credit institutions and the remedies for overcoming the challenges facing credit institutions in improving financial performance.

1.9 Justification of the Study

The study was to provide an in-depth understanding of the role of the financial internal controls in organizations. This was expected to help development practitioners, leaders and members of the organizations. The study provided insight to the stakeholders and other leaders as to whether credit institutions in general play an effective role in community development. Practical

recommendations were made on how the credit institutions and indeed other financial institutions play in community development.

1.10 Significance of the study

It is hoped that, findings from this study helped the individuals, community, government and other stake holders;

- To get more knowledge and information about the different kinds of financial internal controls which credit institutions employed at the different levels of the organization's management.
- The research proposal was an asset in the library of Uganda Martyrs University – Masaka campus and the students used it in their work assignments during their classroom applications.
- Credit Institutions got knowledge about the available solutions which can be employed to overcome the poor performances of credit institutions in their day to day operation.
- The study enabled heads of educational and other training institutes, VCs, principals, Headmasters, Headmistresses, CEOs, Directors e.t.c to be able people of integrity and set examples of responsibilities. With this therefore employers and employees will be enforced to discharge their duties and responsibilities properly.

1.11 Conclusion

This chapter introduced the study and presented the background, research problem, research objectives, limitations and scope of the study. The chapter also dealt with the justification of the study, defined details ethical considerations, described the chapter layout and the theoretical framework of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter presents the introduction, the literature on Independent variables and Dependent variables and the conclusion.

2.1 Financial internal controls and control components employed by credit institutions in improving the financial performance

2.1.2 Internal controls

Anthony (2004) defined internal control as a process effected by an organizations structure, work and authority flows, people and management information systems designed to help the organization accomplish specific goals or objectives. In his view, it is a means by which the organizations resources are directed, monitored and measured. He went ahead and said that there is need to be in place circumstances ensuring that procedures will be performed as intended; right attitudes, integrity and competence, and monitoring by managers.

Coso (1998) divided internal controls into two complementary forms, the accounting controls and administrative controls.

Accounting Internal Controls

Accounting controls were viewed as safeguards to control assets and ensure accuracy of financial records. According to Coso (1999), Anthony (2004) there exists five internal control components

which must be present in order to conclude that internal control is effective namely; control environment, risk assessment, information and communication, control activities and monitoring.

Administrative Internal Controls

Administrative controls are safeguards designed to provide operational efficiency and adherence to policies and procedures. Ishmgisa (2001) considered internal controls as a process comprising five components; control environment, risk assessment, control activities, information and communication, and monitoring. The author noted that each component influences all aspects of an organization's activities whether administrative, financial or accounting operations. In this respect, the author stated the need for effective functioning of each of the components for the organization to attain the purpose for which it was established. Cox (2000) bureaucratic theory states that effective internal controls require that all responsibilities are associated with adequate authority and that duties of all personnel are defined as to their specific responsibilities.

ACCA (2005) highlights that internal controls focuses on establishing responsibilities through delegation of power and authority. Bedeian (1995) said that it plays an important role in preventing/detecting fraud and protecting the organizations resources, both physical such as machinery and property, intangible such as reputation, and intellectual property such as trademarks. .Davidson (2005) observed that at the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal controls refer to the actions taken to achieve a specific objective (for example how to ensure that the organization's payments to third parties are for valid services rendered).

Ishumgisa (2001) and Meigs (1988) described internal control as a specific set of policies, procedures and activities designed to meet an objective. A control may exist within a designed function or activity in a process. A control‟s input may be entity-wide or specific to an account balance, class of transactions or application. .However, Meigs et al (1988) continue to say that controls have specific characteristics; they can be automated or manual, reconciliations, segregation of duties, reviews and approval authorizations, safe guarding and accountability of assets, preventing or detecting error or fraud among others. Controls within a process may consist of financial reporting controls and operational controls (Wales, 2005).

According to Frank (1989), there are three types of controls that the entity's internal audit function should recognize: preventive, authorization and detective controls. Preventative controls prevent risks from occurring for example; segregation of duties, recruiting and training the right staff. Authorization controls prevent fraudulent or erroneous transactions from taking place. Detective controls which detect errors or fraud that has not been prevented. These help to deter undesirable acts in the organization. They could be exceptional reports that would reveal that controls have been bypassed. They provide evidence that a loss has occurred but do not prevent loss from occurring for example, large payments being made without being authorized. They include; reconciliatory supervision, internal checks, physical inventions, analysis and audits.

2.1.2 Components of Internal Controls

According to COSO (1998), Pandey (1998), & Anthony (2004) there exists five components internal controls that must be present in order to conclude that internal controls is effective namely; Control environment, control activities, risk assessment, information and communication, and monitoring and review. A review of these components follows below;

2.1.2.1 Control environment

Anthony (2004) noted that control environment sets the tone for the organization, influencing the consciousness of its people. It is the foundation for all the other components of internal controls. Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (1998), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way.

Jenny and Pamela (2006) assert that "a governing board and management enhance an organization's control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct". They also enhance the control environment when they behave in an ethical manner - creating a positive tone at the top – and when they require that same standard of conduct from everyone in the organization.

The institute of Internal Auditors looks at control environment as one that dictates upon organizational members a feeling of consciousness that their continued stay at an organization is assured by demonstration of their expected level of competence as well as their comprehension of authority and responsibility limits. In this respect, organizational members feel and realize that they are accountable to the organization (Dublin, 1999). Okwach (2000) disclosed that under such an environment, the organizational members utilize the available resources efficiently and effectively hence, achieving the expected organizational performance.

On the other hand, Okwach (2000) views control environment as an enabler of execution of tasks by organization members as set by the board members and departmental managers through

attitudes and actions that encourage the highest level of integrity, appropriate leadership philosophy, operating style and personal and professional standards, thereby leading to reasonable compliance and operational efficiency levels. Ishumgisa (2001) also noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance. Spillane & Reimer (2000) subscribed to the view that control environment exists when the responsibility to execute assigned task is not directed by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively declared.

2.1.2.2 Control activities

Craig (1999) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Dublin (1999) considers control activities as activities that provide evidence that a loss has occurred. They include; analysis, reconciliations, and reviews. He emphasized the importance of authorizations in the form of expenditures as a result of an approved budget as a control activity. Approval of budget expenditure should involve questioning of unusual items, justification of the transaction and review of source documents (Van Horne, 2002). Control activities are actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004).

He further categorized the activities as preventive and detective. Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise; proper authorization, segregation of duties,

sufficient documentation, and physical control of assets. COSO (2004) considers control activities as policies and procedures established to address risks and to achieve the entity's objectives. To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable, and directly relate to the control objectives.

Control activities occur throughout the organization, at all levels and functions. They include a range of preventive and detective activities for example; authorization and approval procedures, segregation of duties (authorizing, processing, procuring recording, receiving), controls over access to resources and records, verifications, reconciliations, reviews of operating performance, reviews of operations and activities, and supervision (assigning, review in and approving, guidance and training), among others. APB (1995) noted that under reviews of performance, management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

According to Pandey (1998), COSO (1998), Anthony (2004); control activities comprises of the policies and procedures that help to ensure that management directives are carried out. They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage or reduce risks. In the same way that managers are responsible for identifying financial and compliance risks for their operations, , they also have line responsibility for designing, implementing and monitoring their internal control systems added Bazzoli et al (2000). COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate

response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective. According to Jenny & Pamela (2006), risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Thus, setting objectives is a precondition to internal controls.

At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives (Nakazi, 2002). In a similar view, Gleiling (2005) noted that at the departmental level, goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Specifically, a department or work unit should have a mission statement, written goals and objectives for each significant activity (Manashe, 2000). Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurement (Gleiling, 2005).

In this regard, Sias et al (2004) lamented that there are certain activities which are significant for all organizations such as; budgeting, purchasing goods and services, hiring employees, evaluating employees, and safeguarding property and equipment.

Cochran (2000) considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable- not absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what asset are at risk, and who is in a position of risk .

The risks may include; public scandal, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making. Alternatively, Smith (2005) considers identification of risks as a challenge to some organizations. The internal controls can give management information about the entity's progress or lack of it towards achievement of objectives but cannot change an inherently bad manager into a good one.

2.1.2.3 Information Flow

ACCA (2005) considers information flow as a process through which the right organizational members receive the right information at the right time. Here, formal and informal channels information flows are noted. Formal channels comprises of downward or top down, upward or bottom up and horizontal or lateral forms. The informal channels comprises majority grapevine. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner. In addition, the information communicated must be reliable, accurate, complete, specific, understandable, directed to the right people and relevant to the intended users.

Semanda (2001) considers the bottom up channel as a carrier of feedback from subordinates to management and involving verbal and non-verbal communication. According to Stahl (1987), verbal method constitute management subordinate consultations, face to face discussions, and negotiations while non-verbal methods constitute written reports and suggestion boxes. Such interactions between management and subordinates are pivotal in motivating subordinates towards achievement of expected organizational performance given their democratic nature. According to Suzanne & Naidoo (2005), the top down channel mostly occurs in an impersonal nature leading to information flow ambiguity, clear message delivery failure to subordinates contrary to what is

intended by management. However, the bottom up channel supplements the top down to enable management attain desired organizational effectiveness. This was elaborated by Sudha (1999) who said that organizations using the top down channel tend to suffer information gaps, misunderstandings and consequently performance deficiencies.

Sudha (1999) also stated that lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral information flow is the communication between groups of people at the same level and thus, information flow between colleagues, departments or units. The author warned that poor lateral communication breeds malicious messages, rumors and confusion that in turn would hurt employees and the overall organizational performance. Byekwaso (2000) emphasized the need for a two way form of information flow to achieve the desired organizational performance because both information flows facilitate the implementation of planned activities. However, he stressed the need for guidance of this information by internal control objectives.

Internal controls also cover the aspects of information and communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities (Walker, Shenkir & Burton, 2003). Chen (2004) said that information systems provide reports containing operational, financial and compliance related information that make it possible to run and control an organization. However, information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up down and across an organization (Wales, 2005). He emphasized that reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to people who need it in a form and tine frame that is useful.

2.1.2.4 Monitoring and Evaluation

The Institute of Internal Auditors (1995) considers monitoring to encompass activities such as periodical evaluations, internal audits and management self-assessments. COSO (1998), Dublin (1990), Magala (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

Walker, Shenkir & Buton (2003) said that monitoring processes are used to assess the quality of internal control performance over time. Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. .According to Athony (2004), the purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed. Internal control is effective if management and interested stake holders have reasonable assurance that they understand the extent to which operational objectives are achieved, .published financial statements are being prepared reliably, applicable laws and regulations are being compiled.

According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but

also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the project should also be registered in the progress report. The progress report provides major information input to the project review (NADC, 1996).

Accountability is the liability that one assumes for ensuring that an obligation to perform a responsibility is fulfilled (Frost, 2000).Accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one"s own actions in relation to these events or transactions (KIkonyogo, 1999). Munene (2004) stressed that accountability can be analyzed at the individual, organizational, and general levels. In his view, accountability is like a Semantic tree: the trunk is governance; a main branch is financial accountability which feeds other branches like budgeting, accounting, auditing, and records management.

According to the Institute of Corporate governance in Uganda (2004), accountability is a concept in ethics and governance with several meanings. It is often used synonymously with such concepts as responsibility, answerability, blameworthiness, liability, and other terms with the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) wards. In leadership roles, accountability is the acknowledgement and assumption of responsibility for actions, products, decisions and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report, explain, and be answerable from resulting consequences. This means that a senior manager cannot delegate responsibility but can

only delegate authority to a subordinate and then hold that subordinate accountable for the performance. One of the biggest mistakes that mangers can make is to continuously frustrate their employees by not holding them accountable. Accountability is the key to achieving results and helps in identifying opportunities in an organization. Holding employees accountable helps them to know the satisfaction of achieving a goal and performing to standard.

Accountability refers to an organizations capacity to demonstrate, answer, or explain its actions (Green 2003). Anderson (2009) argued that one of the elusive concepts in management is accountability. The essence of accountability is answerability; having the obligation to answer questions regarding decisions and or actions (Schedler, 1999). The other defining element of accountability is the availability and application of sanctions on inappropriate actions and behavior uncovered through answerability. Answerability without sanctions is generally considered to be weak accountability and, sanctions without enforcement significantly diminish accountability (Blinkerhoff, 2003). Most people equate sanctions with requirements, standards and penalties embedded in laws, statutes and regulations. Enforcement mechanisms" are critical from broad legal and regulatory frame works to internal agency monitoring systems.

2.2 The effect of financial internal controls on investment growth in credit institutions;

2.2.1 Enhancement of technological advancement

Some economists believe that financial internal controls help in efficient mobilization of savings, efficient distribution of capital as well as easing the risk management. For instance, Joseph Schumpeter (1912) argues that well–functioning banks provide funds to those entrepreneurs with

good investment prospectus, innovative products and efficient production process, thus enhancing technological innovation which is an important component to economic growth.

2.2.2 Profitable Investment Opportunities

Hicks (1969) argue that during the 1800s, England had a better economic performance relative to other countries due to its financial internal controls that were more efficient in identifying and financing profitable investment opportunities. This view is related to what Patrick(1966) calls supply-leading phenomenon, whereby financial institutions are created in advance of the demand for its services by entrepreneurs and investors in growth inducing industries. In contrast, some economists argue that financial development is irrelevant to economic growth. As economic development takes place, it calls for the emergence of financial systems.

2.2.3 Financial Development

Financial development channels funds from savers to investors, and allocates this savings to high return investment, leading to an efficient allocation of capital (Levine and Zervos, 1998). When capital is allocated properly (to high return investments) and there are sound institutional measures, financial development increases the rate of technological innovation (Reference). According to the 2009 Financial Development Report, the institutional environment in which the financial system operates is an important component of financial development and it directly impacts on economic growth.

2.2.4 Improved Resource Allocation

Mobilization of savings entails obtaining and accumulating capital from various savers then channels it to investment. This process is costly as it involves overcoming the cost associated with

the collection of savings from individuals, and overcoming the informational asymmetries associated with ensuring security to savers as they give up control of their savings (Levine 1997). Because of the high transactions and information costs associated with mobilizing savings, financial markets may emerge to overcome this problem by creating bilateral agreements between lenders and borrowers of capital. Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth. In addition to the direct effect of savings in capital accumulation, an efficient mobilization of savings can improve resource allocation and boost technological innovation (Bagehot 1873) thereby encouraging growth.

2.2.5 Arising of financial intermediaries and markets

The high transactional and information costs associated with evaluating economic, market and firm conditions reduces investors' ability to collect and process information about investment opportunities. Consequently savers will hesitate to invest in projects or activities in which there is insufficient or slight reliable information, thus stopping or blocking resources from flowing to promising investment opportunities. Financial intermediaries and markets arise to overcome these problems (Diamond 1984). By lowering transaction and information costs, financial markets induce efficient allocation of capital and faster growth (Greenwood and Jovanovich, 1990). By improving transactional and information costs, financial markets may boost the rate of technological innovations as it identifies those entrepreneurs that can successfully create new goods and production processes (King and Levine1993c). Stock markets play an important role in identifying investment opportunities. As they become larger and more liquid they can stimulate the acquisition of information which improves resource allocation and ultimately contributing to economic growth (Merton, 1987).

2.2.6 Growth Promotion

The absence of financial agreements that ensure an efficient corporate control may impede movement of savings from various agents which might impair capital from flowing to profitable firms (Stiglitz and Andrew 1981). When there are laws protecting the interest of investors thus ensuring that the managers act in good faith and pursue investments that are value-maximizing. In other words when there are no agency problems and funds are invested in value maximizing activities; capital tends to be allocated efficiently. By facilitating corporate control, financial systems allow for an efficient separation of ownership from management of a firm which in turn allows specialization in production according to the principle of comparative advantage (Merton and Bodie 1995,). Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth (Bencivenga and B. Smith, 1991).

2.2.7 Promotion of specialization

Financial internal controls that reduce transaction costs and open door to specialization promote techno-logical innovation and growth. Levine (1992) in his paper states that the relationship between economic growth, easing of transactions, specialization and innovation was brought forward by Adam Smith's (1776) Wealth of Nations, where Smith argued that with specialization, economies can achieve better productivity growth based on comparative advantage. Furthermore Adam Smith (1776) shows that money as a medium of exchange plays a role in lowering transaction costs contrary to the barter trade. By lowering transaction costs, financial markets can promote specialization, thus encouraging productivity gains and exchange of goods and services, which in turn lead economic growth.

Furthermore, Dawson (1998) argues that institutions affect growth through an effect on investment and that institutions affect total factor productivity. Institutions affect growth because they directly affect transaction costs, because when property rights are weak and the rule of law is not reliable transactions costs are high. As transaction costs increase private firms will tend to operate on a small scale, perhaps illegally in an underground economy or even rely on corruption to facilitate operations, thus operating inefficiently and with low levels of specialization Aron(2000).

2.3 The effect of financial internal controls on market share growth in credit institutions

2.3.1 Minimization of costs

Internal controls minimize the agency costs and therefore increase profits and sales of companies who invest in it (Alves & Mendes, 2004; Fernández-Rodríguez, Gómez-Ansón & Cuervo-García, 2004; Goncharov, Werner & Zimmermann, 2006). Internal controls enhance the reputation of listed companies which has the tendency to affect share price positively (Fombrun & Shanley, 1990). This was confirmed by Hart (1995) who contended that reducing agency costs increase firm value.

Accepting that the biggest firm is unlikely to monopolize the industry, the next question is how it will choose to let its market share develop. The same mechanisms that make monopolization expensive also make it tempting to "sell off" some market share. This is because increasing prices on a big market share will give high short term payoffs and the entry barrier effect of the high market share will have become less important in the late stages of the product life cycle, where the fierceness of attack is smaller. Therefore, at some "late point in time," the largest firm will often reduce its market share slightly. From the viewpoint of smaller firms, the pressures early in the

product life cycle tend to work two ways. On the one hand, the declining market share of the smaller firms will make price.

2.3.2 Easy of transfer of funds

Mobilization of savings entails obtaining and accumulating capital from various savers then channel it to investment. This process is costly as it involves overcoming the cost associated with the collection of savings from individuals, and overcoming the informational asymmetries associated with ensuring security to savers as they give up control of their savings (Levine 1997). Because of the high transactions and information costs associated with mobilizing savings, financial markets may emerge to overcome this problem by creating bilateral agreements between lenders and borrowers of capital. Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth.

2.3.3 Efficient Allocation of Capital

The absence of financial agreements that ensure an efficient corporate control may impede movement of savings from various agents which might impair capital from flowing to profitable firms (Stiglitz and Andrew 1981). When there are laws protecting the interest of investors thus ensuring that the managers act in good faith and pursue investments that are value-maximizing. In other words when there are no agency problems and funds are invested in value maximizing activities; capital tends to be allocated efficiently. By facilitating corporate control, financial systems allow for an efficient separation of ownership from management of a firm which in turn allows specialization in production according to the principle of comparative advantage (Merton and Bodie 1995,). Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth (Bencivenga and B. Smith, 1991).

2.3.4 Better knowledge of financial products

As the market develops and deregulation takes place, size becomes a somewhat limited benchmark for competitiveness. Investors will gain a better knowledge of financial products enabling them to be better equipped in making an informed choice. Further, as the financial market expands and capital markets grow, investors will have a wider choice of financial products. Thus, demand for loans will be met by a diversity of other products limiting the scope of gaining competitiveness through size. The concept of competitiveness then needs to be expanded to allow for the complexity of the market place.

2.3.5 Market Opportunities creation

In assessing the creditworthiness of borrowers, banks apply standard and stringent requirements to determine the performance of the business and the ability to repay the loans. Suppliers of credit may also choose to offer high interest rates and credit rationing that would leave significant numbers of potential borrowers without access to credit (Stiglitz and Weiss, 1981). Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance (OECD, 2006).

2.3.6 Permanence and expansion of services

Rosenberg, Gonzalez and Narain (2009) argue that over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their lending operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide and address the problem of administrative costs that are inevitably higher for tiny micro lending than for normal bank lending.

2.3.7 Reduction in Prices and easy acquisition of purchases

Low interest rates stimulate the economy, but could lead to inflation. When interest rates are high, people do not want to take loans out from the bank because it is more difficult to pay the loans back, and the number of purchase of real assets goes down. The opposite is also true. The effects of a lower interest rate on the economy are very beneficial for the consumer. When interest rates are low, people are more likely to take loans out of the bank in order to pay for things like houses and cars. When the market for those things gets strong, price decreases and more people can purchases these things.

2.3.8 Improvement in Economy

It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country. The sectors contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008. The Small Enterprise Sector or Informal Sector provided approximately 80% of total employment and contributed over 92% of the new jobs created in 2008. The sector therefore plays a key role in employment creation, income generation due to prevailing financial internal controls in entities and is the bedrock for industrializing the Country in the near future.

2.4 Contribution of financial internal controls towards total loans

2.4.1 Decline of income quality

A few years later, Beck et al. (2004) used the ratio of the value of credit from financial intermediaries to the private sector, divided by GDP as a proxy to capture the depth and breadth of

the financial intermediation in a panel of 52 countries over the period 1960 to 1999. They conclude that financial development is not only clearly pro-growth but also pro-poor, that is, in countries with better-developed financial intermediation, income inequality declines more rapidly.

2.4.2 Loan Restructuring

According to Letza, Kirkbride, Sun and Small (2008) , managers will only act to maximize shareholder value if only it is not in conflict with his or her own personal self-interest. Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to. The many cases of credit risk expressed in non-performing loans, delinquencies and all forms of loan restructuring which makes the loan books dirty are traceable to poor adherence and non-compliance to established loan granting procedures.

2.4.3 Loan Provision

Some loan defaults are employee-caused, others are bank-caused and others are client-led.

The rate of credit defaults has been so alarming in all areas of the financial services industry.

General Accounting Office (GAO) (1994) expressed worries about a seemingly unjustifiable provision for loan losses which lack evidence. Although the work of Altamuro and Beatty (2010) addressed this conservative attitude; they did not study the exact relationship between internal controls and credit risk. It was reported in separate studies that weak internal controls affect loan loss provision (GAO, 1991; GAO, 1994).

2.4.4 Credit Availability

Credit risk is the likelihood of a borrower or counter party defaulting in the conditions of a loan agreement, contract or indenture either in part or in full (Sobehart, Keenan & Stein, 2001). Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more

profitable if they take risk management very serious. There is evidence that banks which have paid particular attention to risk management have benefited from credit availability which led to the creation of better bank assets and profitability (Cebenoyan & Strahan, 2004). Banks in Japan have had souring figures in the amount of nonperforming loans and provision for loan losses which are normally used as proxies for credit risk (Fukuda, Kasuya & Akashi, 2009).

2.4.5 Easy and access to loan provision

Banks are the most heavily regulated institution because of the risky nature of their business (Mishkin, 2006). Not all deposits are allowed to be given out as loans hence some reserve requirements should be kept against liquidity problems. Such practices ensure prudent bank management and safe keeping of bank assets (Casu et al., 2006). Internal control systems ensure compliance with such regulatory requirements.

2.4.6 Internal control improvement

There is enough literature support for bank size to affect decisions of internal controls and bank operations (Laeven & Levine, 2009). There is the tendency for large banks to be more very mindful of internal controls than small size banks. Size can determine the variety of credit products available to a financial institution (Eling & Marek, 2009). Small firms are likely to have lesser incentive to improve internal controls (Ashbaugh-Skaife, Collins & Kinney, 2007; Doyle, Ge & McVay, 2007) whilst larger banks might be well-resourced to invest in internal controls. Bank size was found to have negative relation with credit risk measured by nonperforming loans (Hu et al., 2006).

2.4.7 Corporate restructuring

When companies are restructured through a merger or acquisition or by any kind, the rules of engagement may change including internal controls. Chen, Dong, Han and Zhou (2013) found evidence of relation between corporate restructuring and internal control practices. It is therefore likely that after a restructure, internal control systems might improve or deteriorate which can affect the loan decisions and credit risk.

2.4.8 Direct access to capital market

For investors who would rather spread risk, vehicles such as collective investment schemes could be developed to allow them to invest in the risk profile they desire. Firms that cannot access the capital market directly can use the market if financial institutions securitize their loans and sell them in the financial market, enabling the risk of lending to the firm to be spread among investors while the firm obtains the necessary funds. The diversity of the financial system makes available a variety of routes that investors can invest in and firms to access funds from.

2.5 Summary

In this chapter the researcher has reviewed literature and has established that financial internal controls are a vital element for credit institutions and therefore should be taken with great consideration since they are a central element to their financial performance especially in as far as investment growth, market share, and delinquent/total loans is concerned in their operations.

2.6 Conclusion

The chapter discusses the contributions and impact of financial internal controls in credit institutions and the usefulness of credit institutions in communities through their impact. It is more

concerned with; financial internal controls employed by credit institutions in improving the financial performance and **e**ffectiveness of credit institutions in improving financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Chapter three is about the description of research process. It describes the design, methods that were used and how they were used. The approaches were qualitative and quantitative, description of the population area of study, sampling techniques and data collection instruments were discussed.

3.1 The Research Design

Quantitative and qualitative research techniques such as case study and survey research methods were used during the study to give a clear understanding of the topic under the study; these methods were employed because of limited time and resources which were used to investigate the selected respondents of the research study. Qualitative approaches were research patterns have epistemological assumptions, values that were integrated and quantitative approaches were used as they were more of data sharing that enables the interconnection of financial and non – financial indicators which are integrated and processed to have meaningful information for management function and the entire enterprises.

3.2 Study Area and Population

The research study was carried out in PostBank, Masaka branch, a credit financial institution found in Masaka town in Masaka municipality, Masaka district. The study consisted of all the selected members and staff of PostBank, using both the cluster and random sampling techniques to evaluate the respondents using a sample size of 35 respondents.

3.3 Determination of the sample size

The sample is a collection of some (subset) elements of a population (Amin 2005). The study used a sample size of 32 respondents from a study population of 35 employees of PostBank Uganda Ltd, Masaka Branch.

The sample size was determined using the formula $n = \frac{N}{1 + Ne^2}$ for decision on sample size selection.

Where,

N = sample size,

N = Population,

e = confidence level (0.05).

$$n = \frac{35}{1 + N (0.05^2)}$$

$$n = \frac{35}{1 + 35 (0.05^2)}$$

$$n = \frac{35}{1.0875}$$

n = 32 respondents

Source (Sekaran (1999)

In all, the study used a sample size of 32 respondents selected from a study population of 35 employees in the branch used to generate the needful information. The respondents were evenly being selected from all the departments in the organization to have all the area represented.

Table 3.1 Category of samples

Category	Number
Managers	3
Supervisors	2
Accounts Assistant	1
Credit officers	9
Banking officers	8
Business Technology Officers	2
Sales Executives	3
Marketing Officers	4
Total	32

Source: *PostBank, Masaka Branch Staff list (2018)*

3.4 Sampling Techniques and Procedure

3.4.1 Purposive Sampling

Sampling refers to the number of elements selected from a given population (Denscombe, 2014). Sample size determination is the act of choosing the number of observations or replicates to

include in a statistical sample (Singh, 2008) which was subjected to the Managers and Supervisors. It was used because it was the best suited for selecting information rich cases for in depth study.

3.4.2 Simple random sampling

Cooper and Schindler (2001) state that sampling refers to the process by which part of the population is selected and conclusions are drawn about the entire population. Simple random sampling was also subjected to other employees so as to give equal chance to all members in the study population (Mugenda and Mugenda, (2003).

3.5 Data collection methods

The methods used in data collection mainly consisted questionnaires and observation. The researcher using a letter of introduction from Uganda Martyrs University proceeded to the field to collect data. The instruments were administered to the sample population personally, open questionnaires were handed over to Managers, Supervisors, Accounts assistant, Credit officers, Business Technology officer, Marketing officers, Sales executive and Banking officers of the PostBank Masaka Branch. For observation was made to examine the information in relation to the role of financial internal controls and credit institutions' performance.

3.6 Data Quality Control

In order to produce correct results, a lot of assessment was carried out before the construction of the instruments. Data collected was continuously transcribed and analyzed right from data collection to presentation level. Quantitative and qualitative data was presented using tables to make the results easy and simple to understand and interpret (Donald, R. C. (2008)).

3.7 Validity of Research Instruments

In order to get valid data the researcher got information from reliable sources. Pre – testing was first done in the organization to complement on one another. More than one data collection approaches such as qualitative and quantitative were used. Research instrument such as questionnaire was used to collect data from the field. Analysis of data by cross–checking of information from the respondents was also carried out. The questionnaire was administered by the researcher for accuracy.

3.8 Reliability of Research Instruments

To ensure reliability of the instruments necessary adjustments were done. The revised instruments were administered before being used for data collection. Administration of the instrument was prepared in clear and understandable language. This greatly contributed to getting valid and reliable information.

3.9 Data Analysis

The data collected using a case study method was coded, edited, recorded and then analyzed basing on the three previous questions. Data for open – ended questions and close – ended questions were sorted and also categorized into business quotations and themes using data analysis (Saunders, 2009). The data was interpreted and converted into reports records. Records were examined, and Spear Man's rank correlation was used to find out whether there was a relationship between the two variables basing on study objectives. Analysis of the results was made using frequency distributions tables of respondent's views.

3.10 Ethical Considerations

The major ethical issues that the researcher faced include; informed consent, deception and confidentiality as in the Bailey's book. The research was steered by the principles guiding ethical concerns in social science research (Mutasa, 2010). In this way, the researcher followed the principles of harm to participants, lack of informed consent, invasion of privacy and deception (Bryman, 2008). This was done by obtaining an introductory letter from the University Administrator of Uganda Martyrs University Masaka Campus. The letter was then presented to the selected respondents. Following the principle of informed consent, the researcher explained to the participants the whole issue about the study; the purpose of the study, the procedures to use during research, the risks and benefits of research, and explains to the participants that their participation will be voluntary. The data collected from various sources was treated with secrecy, honest and handled in the most reliable manner. It was only exposed to the beneficiaries concerned who should view it as reliable, truthful and dependable. Hence the researcher obtained clearance for the study and consent by persuading the respondents that the research was made for study purpose and making aware the role of financial internal controls in credit financial institutions' financial performance to the future readers of the research.

3.11 Limitations and Delimitations of the study

Some respondents did not fill the questionnaires in time and some were not willing to take part in the study. This made the researcher to get limited information about the study.

The time was also limited to fully assess and analyze all the information that is relevant for the study.

Again the outcomes were based on the information solicited from the respondents and therefore subjected to human errors, omissions and possible misstatements.

The study was also limited by scope due to the fact that it was carried out in a single bank and this does not permit a comparison of information with two or more banks.

The researcher did not continue to interview more subjects because of the limited sample size of study and therefore s a result the researcher never collected data that had been attached to strongly disagree and agree opinions.

However, the research overcame them in the following ways;

The researcher translated the language used in the questionnaires and oral interviews to easy and possible language that can be understood by every respondent to avoid poor responses from the respondents.

The researcher also made sure that she uses a time schedule to program herself well for each and every expected activity to be performed. This enabled her to complete everything in time.

The researcher borrowed money from the closest friends and relatives to enable him overcome the constraints of financial shortages under matters which may need funding to facilitate the researcher's fieldwork with a lot of easy.

The researcher motivated the respondents by convincing them how their involvement in the research was of great importance.

The researcher utilized any free time available in order the limited time was used profitably.

3.12 Conclusion

This Chapter is about the description of research process. It describes the design, methods and instruments which were employed and how they were applied. The methods were questionnaire and observation which were used to collect data about the variables. The approaches to data collection were qualitative and quantitative, description of the population area of study, sampling techniques and data collection instruments to be employed in the process of carrying out research have been discussed in this chapter. In the next chapter the researcher presented and discussed the findings of the study. This was done alongside with the effect and role of financial internal controls on financial performance in credit institutions under which results were computed and even be tabulated.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the findings and their presentation, analysis and discussion basing on the study objectives. These objectives included:

- The effect of financial internal controls on investment growth in credit institutions in credit institutions
- The effect of financial internal controls on market share growth in credit institutions
- Contribution of financial internal controls towards total loans

4.1 Background Information of the respondents

In this section, efforts were made to document the background information of the respondents such as gender, education qualification, department and duration in the organization.

4.1.1 Gender of respondents

The research study sought to establish the gender of the respondents who participated in the study. The figure below presents the findings of the study.

Table 4.2 Showing gender of respondents

Gender	**Frequency**	**Percentage%**	**Cumulative Percent**
Male	19	59	59
Female	13	41	100
Total	**32**	**100**	

Source: *Primary Data (2018)*

Findings presented in the table 1 above; 59% of the respondents were males while 41% of the respondents were females. This implies that majority of the respondents who participated in the study were males.

4.1.2 Age of respondents

The researcher intended to know the age of the respondents who participated in the study

Table 4.3 showing the age of respondents

Age Bracket	**Frequency**	**Percentage%**	**Cumulative Percent**
18 – 25 years	5	16	16
26 – 35 years	15	47	63
36 – 45 years	12	37	100
45 and above years	**-**	**-**	
Total	**32**	**100**	

Source: *Primary Data (2018)*

Basing on the research findings in table 2 above, it was revealed that majority of the respondents (47%) were in the age bracket of (26-35years), followed by respondents (37%) in the age of

bracket of (36 – 45years) then respondents (16%) in the age bracket of (18 – 25years) and finally no respondent above 45 years of age who participated in the study.

4.1.3 Respondents marital status

The research study went ahead to examine the respondents' marital status and the table below shows the summary of results.

Table 4.4 Showing Respondents' marital status

Status	Frequency	Percentage%	Cumulative Percentage%
Married	12	38	38
Not married	20	62	100
Not decided	-	-	
Divorced	-	-	
Widowed	-	-	
Total	**32**	**100**	

Source: *Primary Data (2018)*

According to the findings presented in the table 3 above, 38% of the respondents were married, 62% of the respondents were not married, and none of the respondents had been divorced or widowed. This implies that most of the employees who participated in the study are still young and energetic youths without family disturbance issues very much willing to work with the organization.

4.1.4 Respondents' level of education

The researcher intended to know the academic qualification of the people employed so that he could establish whether they were well acquainted with knowledge and organizational internal controls.

Table 4.5 Showing respondents' level of education

Education level	Frequency	Percentage%	Cumulative Percentage%
Secondary	02	7	7
Diploma	08	25	32
Degree	11	34	66
Post graduate diploma	11	34	100
Total	**32**	**100**	

Source: *Primary Data (2018)*

According to the findings tabulated in the table 4, 34% of the respondents had degrees and post graduate diplomas, 25% of the respondents had diplomas, and finally 7% of the respondents had stopped their academic education in secondary. This implied that majority of the respondents who worked in the entity were subjects who were knowledgeable enough and had proper skills for organization's work.

4.1.5 Working experience of respondents

The researcher intended to know the working experience of the people employed so that he could establish whether they were well acquainted with knowledge and organizational internal controls.

Table 4.6 Showing working experience of respondents

Years' experience	Frequency	Percent%	Cumulative Percent%
1 – 3 years	14	44	44
4 – 6 years	12	38	82
7 – 10 years	06	18	100
10 years and above	-	-	
Total	**32**	**100**	

Source: *Primary Data (2018)*

From the above tabulated data, it is evidenced that 44% of the respondents had experience that varied between 1 and 3 years, 38% of the respondents had experience of 4 and 6 years, 18% of the respondents had experience of 7 and 10 years, finally none of the respondents had an experience of 10 years and above. This implies that majority of the respondents who participated in the study were new entrants in the field of work, working excitingly to acquire more skills and experience to be better employees of the organization. The tabulated data was illustrated as shown;

4.2 Financial internal controls on investment growth in credit institutions.

The objective of the study sought to find out the effect of financial internal controls on investment growth in credit institutions. The results in this section were presented by discussing responses from specific items under various questions. The objective was determining whether investment growth is really affected by financial internal controls and in what ways do financial internal controls affect financial performance of credit institutions and showing various respondents perception about financial internal controls.

4.2.1 Accountability helps Managers to make informed decisions basing on financial reports

Table 4.7 Showing respondents views whether accountability helps Managers to make informed decisions basing on financial reports.

Respondents' views	Frequency	Percentage%
Strongly Disagree	0	0
Disagree	0	0
Neutral	02	6
Agree	12	38
Strongly Agree	18	56
Total	**32**	**100**

Source: *Primary Data (2018)*

According to the presented findings above in the table 6, 56% of the respondents strongly agreed that accountability help managers to make informed decisions basing on financial reports, 38% of the respondents agreed, 6% of the respondents were neutral. Since the majority strongly agreed, it implies accountability helps managers to make informed decisions based on financial reports.

4.2.2 Financial reporting and operations complies with laws and regulations of reporting

Table 4.8 Showing the respondents whether financial reporting and operations complies with laws and regulations of reporting

Respondents' views	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	0	0
Neutral	01	3
Agree	17	53
Strongly Agree	14	44
Total	**32**	**100**

Source: *Primary Data (2018)*

Basing on the findings computed in the table 7 above, it was revealed that 44% of the respondents strongly agreed that financial reporting and operations complies with laws and regulations of reporting, 53% of the respondents agreed that financial reporting and operations complies with laws and regulations of reporting, and 3% of the respondents were neutral, they never had side. According to the researcher, majority agreed that financial reporting and operations complied with laws and regulations of reporting.

4.2.3 The Bank prepares, verifies and distributes to management current financial reports and analyses activities and functions that are performed

Table 4.9 Showing the respondent about the Bank prepares, verifies and distribute to management current financial reports and analyses activities and functions that are performed

Respondents' views	**Frequency**	**Percentage (%)**
Strongly Disagree	0	0
Disagree	02	06
Neutral	0	0
Agree	18	56
Strongly Agree	12	38
Total	**32**	**100**

Source: *Primary Data (2018)*

From the researcher's view of point basing on the findings in the table 8 above, 56% of the respondents agreed with the researcher, 38% of the respondents strongly agreed, 6% of the respondents disagreed. There was neither a strongly disagreeing or neutral respondent with any option. This implies that bank prepares, verifies and distributes to management current financial reports and analyzes activities and functions that are performed.

4.2.4 The Bank has enough liquidity to finance its operations

Table 4.10 Showing the respondents whether the Bank has enough liquidity to finance its operations

Respondent's views	**Frequency**	**Percentage (%)**
Strongly Disagree	01	3
Disagree	02	6
Neutral	05	17
Agree	13	40
Strongly Agree	11	34
Total	**32**	**100**

Source: *Primary Data (2018)*

34% of the respondents strongly agreed, 40% of the respondents agreed, 17% of the respondents neutral, 6% of the respondents disagreed and finally 3% of the respondents strongly disagreed. From the researcher's point of view, it is evident that the majority of the respondents agreed that the bank has enough liquidity to finance its operations.

4.2.5 Accountability is one of the ways through which managers' account for the resources entrusted to them

Table 4.11 Showing respondents views whether accountability is one of the ways through which managers' account for the resources entrusted to them;

Respondent's views	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	0	0
Neutral	03	9
Agree	11	35
Strongly Agree	18	56
Total	**32**	**100**

Source: Primary Data (2018)

Basing on the research findings from the field using the above table 10, it was revealed that 56% of the respondents strongly agreed with the researcher, 35% of the respondents agreed, 9% of the respondents were neutral while none of the respondents was contrary to researcher's view about accountability perspective. Being the majority strongly agreed and agreed with the researcher's suggestive questions, it implies that accountability is one of the ways through which managers' account for the resources entrusted to them.

4.2.6 Accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions

Table 4.12 Showing respondents vies on whether accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions;

Respondents' views	**Frequency**	**Percentage (%)**
Strongly Disagree	03	09
Disagree	0	0
Neutral	06	19
Agree	12	38
Strongly Agree	11	34
Total	**32**	**100**

Source: *Primary Data (2018)*

Findings presented in the table 11 above, revealed that 34% of the respondents strongly agreed, 38% of the respondents agreed, 19% of the respondents were neutral with no side, 9% of the respondents strongly disagreed with the researcher. Since the majority of the respondents strongly agreed and agreed with the researcher's suggestive question, it was an indication that accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions.

4.2.7 Relevancy for an organization to establish performance measures

Table 4.13 Showing respondents' views about the relevancy for an organization to establish performance measures

Respondents views	**Frequency**	**Percentage (%)**
Yes	20	63
No	08	25
Don't Know	04	12
Total	**32**	**100**

Source: Primary Data (2018)

Using the tabulated findings above in table 12, 63% of the respondents answered "Yes", 25% of the respondents answered "No", while 12% of the respondents never gave any response a sign that indicated, they didn't know. From the researcher's perspective therefore, majority of the respondents were in agreement, an indication that implied respondents interviewed found it relevant for an organization to establish performance measures between their business operations and internal controls.

4.2.8 Level of Investment

Table 4.14 Showing the respondents' Level of Investment Knowledge

Respondent's views	**Frequency**	**Percentage**
Novice	02	6
Some familiarity	0	0
Reasonably knowledgeable	17	53
Quite knowledgeable	06	19
Very knowledgeable	07	22
Total	**32**	**100**

Source: *Primary Data (2018)*

According to the research findings tabulated above in table 14 of the study, 53% of the respondents answered reasonably knowledgeable, 22% of the respondents answered very knowledgeable, 19% of the respondents said quite knowledgeable, 6% answered novice while none of the respondents agreed with some familiarity option. Because majority of the respondents answered reasonably knowledgeable, it implied that reasonably knowledgeable describe more the level of investment knowledge for respondents who participated in the research study.

4.2.9 Relationship between Financial internal controls and the Investment growth

Using spear man's correlation coefficient

$$r = 1 - \frac{(6 \sum d^2)}{n(n^2 - 1)}$$

Where; r is the rank correlation coefficient

d is the rank between paired items in two series.

n is the total number of observations.

Table 4.15 Showing percentage of respondents' views on financial internal controls.

Respondents' views	Frequency	Percentage (%)
Accountability helps Managers to make informed decisions basing on financial reports	18	15
Financial reporting and operations complies with laws and regulations of reporting	14	12
The Bank prepares, verifies and distribute to management current financial reports and analyses activities and functions that are performed	12	10
The Bank has enough liquidity to finance its operations	11	9
Accountability is one of the ways through which management address and account for the resources entrusted to them	18	15
Accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions	11	9
Relevancy for an organization to establish performance measures between their business operations and controls systems	20	16
Level of investment knowledge	17	14

Source: Primary Data (2018)

Table 4.16 Showing percentage of respondents on investment growth in credit institutions

Respondents' views	Frequency	Percentage (%)
Accountability helps Managers to make informed decisions basing on financial reports	12	11
Financial reporting and operations complies with laws and regulations of reporting	17	16
The Bank prepares, verifies and distribute to management current financial reports and analyses activities and functions that are performed	18	17
The Bank has enough liquidity to finance its operations	13	12
Accountability is one of the ways through which management address and account for the resources entrusted to them	11	10
Accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions	08	07
Relevancy for an organization to establish performance measures between their business operations and controls systems	13	12
Level of investment knowledge	17	16

Source: Primary Data (2018)

Table 4.17 Showing ranks of variables, the difference between ranks and summation of difference between ranks.

Financial internal controls (%)	Rank	Investment Growth (%)	Rank	D	d^2
15	2	11	6	4	16
12	5	16	2	3	9
10	6	17	1	5	25
9	7	12	4	3	9
15	2	10	7	5	25
9	7	07	8	1	1
16	1	12	4	3	9
14	4	16	2	2	4
					$\sum d^2 = 98$

$r = 1 - \frac{(6 \sum d^2)}{8(8^2-1)}$

$\sum d^2 = 98$

$n = 8$

$n^2 = 64$

$r = 1 - \frac{(6 \times 98)}{8(64-1)}$

$$r = 1 - \frac{588}{504}$$

$r = 1 – 1.17$

$r = - 0.17$

Findings indicated that there is a negative relationship between financial internal controls and investment growth in credit institution as represented by a negative correlation of 0.17 implying that an increase in financial internal controls affects investment growth in credit institutions negatively.

4.3 Financial internal controls and market share growth in credit institutions

4.3.1 Internal controls minimize the agency costs and therefore increase profits and sales of companies;

Table 4.18 Showing respondents views whether Internal controls minimize the agency costs and therefore increase profits and sales of companies;

Respondents' views	Frequency	Percentage
Strongly Disagree	02	6
Disagree	-	-
Neutral	02	6
Agree	15	48
Strongly Agree	13	40
Total	**32**	**100**

Source: *Primary Data (2018)*

According to field survey findings tabulated above in table 17, 48% of the respondents agreed, 40% of the respondents strongly agreed, 6% of the respondents strongly disagreed, while the 6% of the respondents were neutral. None of the respondents disagreed. This implies that the internal controls minimize the agency costs and therefore increase profits and sales of companies as the majority were in agreement with the researcher.

4.3.2 Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth

Table 4.19 Showing whether financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth

Respondents' views	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	02	6
Neutral	06	19
Agree	14	44
Strongly Agree	10	31
Total	**32**	**100**

Source: *Primary Data (2018)*

Basing on the presented research findings in the table; 44% of the respondents agreed, 31% of the respondents strongly agreed, 19% of the respondents were neutral, 6% of the respondents disagreed with the researcher while none among the respondents strongly disagreed with the researcher an indication that implied financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth.

4.3.3 Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth

Table 4.20 showing respondents views whether financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth

Respondents' views	**Frequency**	**Percentage**
Strongly Disagree	02	6
Disagree	02	6
Neutral	07	22
Agree	12	38
Strongly Agree	09	28
Total	**32**	**100**

Source: *Primary Data (2018)*

38% of the respondents agreed with the researcher's suggestive question, 28% of the respondents strongly agreed with the researcher, 22% of the respondents were neutral, 6% of the respondents strongly disagreed while the other 6% of the respondents also disagreed with the researcher. Because majority of the respondents strongly agreed and agreed with the researcher's suggestive question, realistically furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth.

4.3.4 as the financial market expands and capital markets grow, investors will have a wider choice of financial products

Table 4.21: Showing respondents views that as the financial market expands and capital markets grow, investors will have a wider choice of financial products

Respondents' views	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	02	6
Neutral	03	9
Agree	14	44
Strongly Agree	13	41
Total		**100**

Source: *Primary Data (2018)*

With the tabulated findings above; 44% of the respondents agreed, 41% of the respondents strongly agreed, 9% of the respondents were neutral while 6% of the respondents disagreed. It is believed that none of the respondents strongly disagreed with the researcher about the suggestive question an indication that as the financial market expands and capital markets grow, investors will have a wider choice of financial products.

4.3.5 Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance

Table 4.22 Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance

Respondents' views	Frequency	Percentage
Strongly Disagree	0	0
Disagree	05	15
Neutral	04	13
Agree	14	44
Strongly Agree	09	28
Total	**32**	**100**

Source: *Primary Data (2018)*

44% of the respondents were in agreement, 28% strongly agreed, 15% of the respondents disagreed, while 13% of the respondents were neutral. Again none of the respondents strongly disagreed with the researcher's suggestive question and implication that lack of available external finance could result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance.

4.3.6 Financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities

Table 4.23 Showing respondents views whether financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities

Respondents' views	Frequency	Percentage
Strongly Disagree	0	0
Disagree	01	3
Neutral	04	13
Agree	17	53
Strongly Agree	10	31
Total	**32**	**100**

Source: *Primary Data (2018)*

53% of the respondents agreed, 31% of the respondents strongly agreed, 13% of the respondents were neutral while 3% of the respondents disagreed with the researcher though none of them could strongly disagree. This implies that financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities due to majority who were in agreement with the researcher.

4.3.7 Relationship between Financial internal controls and market share growth in credit institutions

Using spear man's correlation coefficient

$$r = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

Where; r is the rank correlation coefficient

d is the rank between paired items in two series.

n is the total number of observations.

Table 4.24 Showing percentage of respondents' views on financial internal controls.

Respondents' views	**Frequency**	**Percentage (%)**
Internal controls minimize the agency costs and therefore increase profits and sales of companies.	18	20
Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth.	14	15
Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth.	12	13
As the financial market expands and capital markets grow, investors will have a wider choice of financial products.	16	17
Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance.	18	20
Financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities.	14	15

Source: Primary Data (2018)

Table 4.25 Showing percentage of respondents on market share growth in credit institutions

Respondents' views	**Frequency**	**Percentage (%)**
Internal controls minimize the agency costs and therefore increase profits and sales of companies.	15	17
Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth.	14	16
Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth.	12	15
As the financial market expands and capital markets grow, investors will have a wider choice of financial products.	14	16
Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance.	14	16
Financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities.	17	20

Source: Primary Data (2018)

Table 4.26 Showing ranks of variables, the difference between ranks and summation of difference between ranks.

Financial internal controls (%)	Rank	Market share growth (%)	Rank	D	d^2
20	1	17	2	1	1
15	4	16	3	1	1
13	6	15	6	0	0
17	3	16	3	0	0
20	1	16	3	2	4
15	4	20	1	3	9
					$\sum d^2 = 15$

$$r = 1 - \frac{(6 \sum d^2)}{6(6^2 - 1)}$$

$\sum d^2 = 15$

$n = 6$

$n^2 = 36$

$$r = 1 - \frac{(6 \times 15)}{6(36 - 1)}$$

$$r = 1 - \frac{90}{210}$$

$r = 1 – 0.43$

$r = 0.57$

Findings indicated that there is a positive moderate relationship between financial internal controls and market share growth represented by a correlation of 0.57 thus direct relationships implying that an increase in financial internal controls leads to an increase in growth of market share in credit institution.

4.4 Financial internal controls and delinquent/total loans in credit institutions

4.4.1 Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to

Table 4.27 Showing respondents views whether Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to

Response	Frequency	Percentage
Strongly Disagree	01	3
Disagree	02	6
Neutral	03	10
Agree	09	28
Strongly Agree	17	53
Total	**32**	**100**

Source: Primary Data

From the presented research findings about in table 26, 53% of the respondents answered strongly agree, 28% of the respondents agree, 10% of the respondents were neutral about their response, 6% of the respondents disagreed while 3% of the respondents strongly disagreed. With the majority agreeing, managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to.

4.4.2 Some loan defaults are employee-caused, others are bank-caused and others are client-led

Table 4.28 Showing respondents views whether some loan defaults are employee-caused, others are bank-caused and others are client-led

Response	Frequency	Percentage
Strongly Disagree	01	3
Disagree	02	6
Neutral	03	10
Agree	09	28
Strongly Agree	17	53
Total	**32**	**100**

4.4.3 Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious

Table 4.29: Showing respondents views whether Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious

Respondents' views	Frequency	Percentage
Strongly Disagree	01	3
Disagree	0	0
Neutral	01	3
Agree	16	50
Strongly Agree	14	44
Total	**32**	**100**

Source: *Primary Data (2018)*

50% of the respondents were in agreement, 44% of the respondents strongly agreed, 3% of the respondents disagreed while 3% of the respondents strongly disagreed. The responses of the majority indicated that surely Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious.

4.4.4 Not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems

Table 4.30 Showing respondents views that not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems

Respondents' views	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	02	6
Neutral	04	13
Agree	09	28
Strongly Agree	17	53
Total	**32**	**100**

Source: *Primary Data (2018)*

53% of the respondents strongly agreed, 28% of the respondents agreed, 13% of the respondents were neutral, 6% of the respondents disagreed while none of the respondents strongly disagreed. An implication that not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems.

4.4.5 Small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls

Table: 4.31: Showing respondents' views whether small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls

Respondents' views	Frequency	Percentage
Strongly Disagree	0	0
Disagree	02	6
Neutral	07	22
Agree	14	44
Strongly Agree	09	28
Total	**32**	**100**

Source: *Primary Data (2018)*

44% of the respondents agreed with the researcher, 28% of the respondents strongly agreed, 22% were neutral in their views, 6% disagreed while none of the subjects strongly disagreed. Because the majority agreed, it signifies that Small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls.

4.4.6 Relationship between Financial internal controls and delinquent/total loans.

Using spear man's correlation coefficient

$$r = 1 - \frac{(6 \sum d^2)}{n(n^2 - 1)}$$

Where; r is the rank correlation coefficient

d is the rank between paired items in two series.

n is the total number of observations.

Table 4.32 Showing percentage of respondents' views on financial internal controls.

Respondents' views	**Frequency**	**Percentage (%)**
Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to.	18	23
Some loan defaults are employee-caused, others are bank-caused and others are client-led.	14	18
Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious.	12	15
Not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems.	16	20
Small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls.	18	23

Source: Primary Data (2018)

Table 4.33 Showing percentage of Respondents views on delinquent/total loans.

Respondent's views	Frequency	Percentage (%)
Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to.	17	23
Some loan defaults are employee-caused, others are bank-caused and others are client-led.	10	14
Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious.	16	22
Not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems.	17	23
Small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls.	13	18

Source: Primary Data (2018)

Table 4.34 Showing ranks of variables, the difference between ranks and summation of difference between ranks.

Financial internal control (%)	Rank	Delinquent/total loans (%)	Rank	D	d^2
23	1	23	1	0	0
18	4	14	5	1	1
15	5	22	3	2	4
20	3	23	1	2	4
23	1	18	4	3	9
					$\sum d^2 = 18$

$$r = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

$\sum d^2 = 18$

$n = 5$

$n^2 = 25$

$$r = 1 - \frac{6 \times 18}{5(25 - 1)}$$

$$r = 1 - \frac{108}{120}$$

$r = 1 - 0.9$

$r = 0.1$

Findings showed that there is a positive weak relationship between financial internal controls and delinquent/total loans represented by a correlation of 0.1 implying an increase in financial internal controls leads to slight increase in delinquent/total loans in credit institutions.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Under this chapter, the researcher presents the general summaries of the research findings, conclusion, recommendations and areas for further study. Essentially, the summary findings relate to the specific objectives of the study which include;

- To establish the effect of financial internal controls on investment growth in credit institutions
- To assess the effect of financial internal controls on market share growth in credit institutions
- To assess the contribution of financial internal controls towards delinquent/total loans in credit institutions.

5.1 Summary findings

This part presents the summarized results and interpretation (findings) based on the study objectives as established at the beginning of the study.

5.1.1 Respondent's Background information

The findings revealed that majority of the respondents in the selected were males with a Percentage of 59%. The findings also revealed that most of the respondents were not married with 62% and the respondents were in age bracket of 26 to 35 with a percentage of 47%. The findings further showed that majority of the employees had worked with an organization with a percentage of 44% and the researcher discovered that majority of the employees' attained degrees with 34%

and post graduate with 34%. Research data was collected using questionnaires, analysed and presented using tables.

5.1.2 Financial internal controls on investment growth in credit institutions

From the findings of the research study, it was noted that financial internal controls affects the investment growth in credit institution negatively. With a value of r = - 0.17 revealed that there is a negative weak relationship that exists between financial internal controls and investment growth performance. This means that investment growth of credit institution slightly leads to financial internal controls employed by the institution negatively.

5.1.3 Financial internal controls on market share growth

The findings revealed that an increase in financial internal controls leads to an increase in market share growth. Thus a positive and a significant relationship exist between financial internal controls and growth of market share with values r= 0.57. This illustrates a positive moderate relationship. Therefore financial internal controls help PostBank to grow its market share by 57%. As they become larger and more liquid they can stimulate the acquisition of information which improves resource allocation and ultimately contributing to economic growth. The findings also revealed that because of the high transactions and information costs associated with mobilizing savings, financial markets could emerge to overcome this problem by creating bilateral agreements between lenders and borrowers of capital. 0.57 thus direct relationships implying that an in credit institution.

5.1.4 Contributions of financial internal controls towards total loans

Findings from the field study revealed that the many cases of credit risk expressed in non-performing loans, delinquencies and all forms of loan restructuring which makes the loan books dirty are traceable to poor adherence and non-compliance to established loan granting procedures. This introduces a fact that emphasis on financial internal controls reduces delinquent loans by 0.1 which represents 10%. This implies that an increase in financial internal controls leads to slight increase in delinquent/total loans in credit institutions. The researcher also revealed that some of the loan defaults are employee caused, bank caused and others are client led.

5.2 Conclusions and Recommendations

5.2.1 Conclusion

Objective one of the study which was to establish the effect of financial internal controls on investment growth indicated that financial internal controls do affect the investment growth in credit institution negatively and this means that investment growth does not depend on financial internal controls employed by PostBank.

Basing on the findings from the second objective which was to assess the effect of financial internal controls on market share growth, the researcher found out that there is a positive relationship between financial internal controls and market share growth. This therefore implies that PostBank should consistently strive to employ financial internal controls in order to increase on the market share of PostBank hence leading to good financial performance.

The last objective was to assess the contribution of financial internal controls towards delinquent/total loans. It was found out that financial internal controls affect the delinquent loans

in credit institution. This implies that PostBank should always employ administrative financial internal controls to reduce on delinquency in the organization.

The findings also showed that organizations employed financial controls which were intended to ensure sustainability and support capacity of the enterprise. The results also indicated that the banking sector played a significant key role in employment creation, income generation due to prevailing financial internal controls in entities and is the bedrock for industrializing Uganda in the near future.

Generally, the research results indicated that financial internal controls like accountancy and administrative financial internal controls affects the financial performance of PostBank and their performance is inversely influenced by presence of liquidity, high level of accountability and reliability and growth in market share which is a good indicator of financial performance in PostBank.

5.2.2 Recommendations

Basing on the findings, the following are the recommendations the study throws that there is need improvement to foster organizational performance and financial controls effectiveness.

There is a need to train workers of the organization control systems in order to ensure effective and principally conduct to control activities.

The management of the bank should ensure proper collective decision making and feedback management that explores participation of stakeholders which enhances appropriateness in suggestions.

5.3 Areas for Further Research

Results showed a negative relationship between financial internal controls and investment growth so I recommend another study to be carried out to confirm that finding.

I also recommend another person to study the weak relationship between financial internal controls and delinquent loans in credit institution.

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APPENDIX I:

QUESTIONNAIRE

Dear respondent,

I am **Twasiima Baker** a third year student at Uganda Martyrs University pursuing a Bachelor's degree in Business Administration and Management. As part of my academic requirement, I'm carrying out Research on a topic **"The role of financial internal controls on the financial performance of credit institutions'** a case study being **Post Bank Uganda Limited**, Masaka Branch. You have been identified as a resourceful person in providing the required information. I wish to request you kindly to spare some time and answer the questions below as honestly as possible by ticking and filling in the spaces provided.

The purpose of this research is purely academic and the information you give will be treated with utmost confidentiality.

SECTION A: RESPONDENT' S BACKGROUND INFORMATION (Please tick in the appropriate Box)

Please answer the following questions about the general business climate in your organization in terms of how it operates, not how you would prefer it to be.

1. Sex: Male [ ] Female [ ]

2. Level of Education:

Secondary [ ] Diploma [ ] Degree [ ] Post graduate [ ]

3. For how long have you served in this organization/bank?

1-3 years [ ] 4-6 years [ ] 7-10 years [ ] 10yrs and above [ ]

4. Which department/section do you belong to?

Sales/marketing [ ] Procurement/stores [ ] Accounts/budget [ ] Credit [ ] operations [ ]

Please specify if others……………………………………..

SECTION B: FINANCIAL INTERNAL CONTROLS AND INVESTMENT GROWTH IN CREDIT INSTITUTIONS

1. Please indicate the extent to which you agree with each of the following statements about your organization by indicating with a tick in the box of your choice. Use the key below answering the following questions: Apply a tick where applicable using the following key.

SD– Strongly disagree, D – disagree, N – Neutral, A – Agree and SA – Strongly agree

STATEMENT	SD	D	N	A	SA
Accountability helps Managers to make informed decisions basing on financial reports					
Financial reporting and operations complies with laws and regulations of reporting					
The Bank prepares, verifies and distribute to management current financial reports and analyses activities and functions that are performed					
The Bank has enough liquidity to finance its operations					
Accountability is one of the ways through which management address and account for the resources entrusted to them					
Accountability helps management to detect fraud, non-compliance with internal policies and procedures and detection of ineffective financial decisions					

2. Do you find it relevant for an organization to establish performance measures between their business operations and controls systems? If yes, explain.

………………………………………………………………………………………………………

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3. Which of the following best describes your level of investment knowledge?

a) Novice [ ]

b) Some familiarity [ ]

c) Reasonably knowledgeable [ ]

d) Quite knowledgeable [ ]

e) Very knowledgeable [ ]

4. Would you say that the amount of debt compared to the assets of your company have decreased, remained unchanged or increased over the past 6 months?

a) Increased [ ] Decreased [ ] Remained unchanged [ ] Not applicable, no debt [ ]

5. With respect to the financing structure of your firm, you can use internal funds and external financing. For each of the following sources of financing, could you please indicate whether you used them OR NOT during the past 6 months?

a) Internal funds [ ]

b) Grants or subsidized bank loan [ ]

c) Bank overdraft, credit line or credit cards overdraft [ ]

d) Bank loan (excluding overdraft) [ ]

e) Trade credit [ ]

f) Other loan (e.g. from a related company or shareholders, excluding trade credit; from family and friends) [ ]

g) Leasing or hire-purchase or factoring [ ]

h) Debt securities issued [ ]

6. What are some of the other factors that affect financial performance in your organization?

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7. How else does your organization promote its financial performance to improve quality and quantity?

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SECTION C: FINANCIAL INTERNAL CONTROLS AND MARKET SHARE GROWTH IN CREDIT INSTITUTIONS

1. What is the main area of operation (industrial sector) for the firm?

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2. What are the main products made?

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3. What is the market share of the firm in each product market?

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4. What is the average profit margin in each product market? (in % terms)

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5. What percentage of the shares of the firm is publicly traded?

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6. Do you use formal Net Present Value Calculations or any other formal rule? Please Explain?

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7. Kindly state the extent to which you agree with the following statements concerning the financial internal controls and market share;

Use the scale of: SA= Strongly Agree A= Agree N= Not certain, D = Disagree SD = Strongly Disagree

	SA	A	N	D	SD
Internal controls minimize the agency costs and therefore increase profits and sales of companies.					
Financial markets that ease the transfer of funds from savers to those in need of capital can strongly affect economic growth.					
Furthermore financial arrangements that improve corporate control tend to improve the allocation of capital thus promoting growth.					
As the financial market expands and capital markets grow, investors will have a wider choice of financial products.					
Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities hence hindering their performance.					
Financial sector plays a key role in employment creation, income generation due to prevailing financial internal controls in entities.					

SECTIOND: FINANCIAL INTERNAL CONTROLS AND DELINQUENT/TOTAL LOANS IN CREDIT INSTITUTIONS

1. Kindly state the extent to which you agree with the following statements concerning the financial internal controls and market share;

Use the scale of: SA= strongly agree A= Agree N= Not certain D = Disagree SD = strongly disagree

	SA	A	N	D	SD
Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to.					
Some loan defaults are employee-caused, others are bank-caused and others are client-led.					
Banks stand to enjoy benefits of enjoying reputation capital, attracting more investments and being more profitable if they take risk management very serious.					
Not all deposits are allowed to be given out as loans hence some reserve requirements are kept against liquidity problems.					
Small firms are likely to have lesser incentive to improve internal controls whilst larger banks might be well-resourced to invest in internal controls.					
Firms that cannot access the capital market directly can use the market if financial institutions securitize their loans and sell them in the financial market.					

2. What are the advantages of higher employee's performance to your enterprise?

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3. What strategy has your enterprise adopted to do business financing effectively in a competitive market?

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4. At what interest rate, do you give loan from your business enterprise?

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5. How do you find the business environment for your enterprise?

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Thank you for sparing your precious time and God bless you.

APPENDIX II

INTRODUCTION LETTER