Internal Control System and Loan Performance

in the Banking Sector:

The Case of Barclays Bank Uganda Kampala Main Branch

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Barbara Atuhaire

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DEDICATION

This work is dedicated to my parents Mr. George Bazirakakye and Mrs. Auleria Bazirakakye, my husband and children.

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ABSTRACT

This study analysed relationship between internal control systems and loans performance of Barclays Bank Uganda. Specifically, the study looked at the relationship between of risk assessment, monitoring activities and control activities on loan performance. The study used case study design on a sample of 92 respondents. Data was collected by use of questionnaire and interviews, and analysed quantitatively and qualitatively. Quantitative data was analysed using the Statistical Package for Social Scientists version 20.0 (SPSS). At univariate level, data was analysed basing on the frequencies, percentages, mean and standard deviation. At bivariate level, data was analysed basing on correlational analysis and at multivariate level data analysis was carried out using multiple linear regression while qualitative data was analysed by content analysis. The study established; a positive significant relationship between risk assessment, monitoring activities and control activities with loans performance. Internal control systems namely were risk assessment, monitoring activities and control activities explained 72.4% of the variation in loans performance. The study thus concludes that risk assessment, monitoring activities and control activities influenced loans performance. Therefore, the study recommends that banks should carry out effective risk assessment and effectively implement monitoring and control activities.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Loans performance is important in the banking sector because it affects the profitability and growth of banks (Khan, & Sattar, 2014). However, in this study, it is presumed that there are factors such as internal control systems influence loans performance. This study therefore, seeks to establish how internal control systems namely; control environment, risk assessment and control activities influence loans performance in terms of loan repayment, default rates and portfolio at risk. Chapter one presents background to the study, statement of the problem, objectives of the study, research hypotheses, research questions, scope of the study, the significance of the study and the conceptual framework.

1.1 Background to the Study

There is a large body of literature identifying determinants of loans performance (Glen & Mondragón-Vélez, 2011). However, two sets of factors have been identified to explain loans performance, namely macroeconomic conditions and bank-level factors (Klein, 2013). Macroeconomic variables include real GDP growth, exchange rate, interest rate, and inflation (Louzis, Vouldis & Metaxas, 2010). Bank-level factors include cost efficiency of loans and management of loans that includes internal control systems. Emphasis on internal control systems has its origins in the early 1990s (Amudo & Inanga, 2009). In 1992, Treadway Commission made recommendations directly addressing the problems of weakness of internal controls and emphasised the importance of the control environment, codes of ethical conduct, management reports on effectiveness of internal controls and development of a common definition and framework of internal control. Today internal controls have gained universal recognition (Amudo & Inanga, 2009). However, in Africa, there inconsistencies in internal control systems, they largely appear on paper. The implementation of control principles and procedures across units and time are not monitored and eliminated and maintaining proper audit trails is affected by lack of computerisation (Doe & Pattanayak, 2008).

With respect to loans performance, globally, over the past decade, the credit quality of loans across most countries in the world remained relatively stable until the financial crises hit the global economy in 2007-2008 (Beck, Jakubik & Piloiu, 2013). In the USA, delinquency rates for commercial loans have seen greater volatility. Consequently 25 commercial banks failed with several others declaring bankruptcy and commercial banks are reluctant to lend money (Stefanelli & Cotugno, 2012). In the European Union, in the countries such as the Baltic there has been a very large increase in non-performing loans (NPLs). For instance in Latvia, NPLs have more than tripled. However, in the Western Europe, in countries such as Germany, NPLs have risen by less than one (Beck et al., 2013). High and rising levels of non-performing loans (NPLs) in many Central and Eastern and South- Eastern Europe (CESEE) continue to exert strong pressure on banks' balance sheet, with possible adverse effect on banks' lending operations. NPLs in the region increased to an average of 11 percent since 2007 (Klein, 2013).
The developing economies across Asia, Latin America, Middle East and Africa also face a big problem of NPLs. In the Asian countries such as Thailand, Indonesia, Malaysia, India and also China Non-performing assets have become a matter of concern (Roy, 2014). Financial/ banking crises in 2008 in East Asia and Sub-Saharan African countries were preceded by high non-

performing loans (Khemraj & Pasha, 2009). In Africa, NPLs are high with countries such as Egypt, Nigeria, Morocco, Algeria, South Africa and Tunisia suffering severely from bad loans with NPLs at more than 15 percent (Mabvure, Gwangwava, Faitira, Mutibvu & Kamoyo, 2012). For instance, the Tunisian banking sectors suffers from decline in asset quality (Calice, 2012) while South African and Nigerian banks have suffered poor performance because of NPLs (Gezu, 2014).

In Uganda, non-performing loans have also become a big challenge causing liquidity problems (Kulabako, 2013). Banks in Uganda have experienced liquidity problems with loan-to-deposit ratio in the majority of branches of major commercial banks reaching 107 per cent. For instance, the loan-deposit ratio for Stanbic Bank averaged 87% at the end 2010. Meanwhile, the loan – deposit ratio for Bank of Baroda reached 77.6 % as of September 2011 (Bank of Uganda, 2012). The non-performing loans for banks in Uganda stand at 5.8 per cent. Even this seemingly low percentage has been because of write-offs of many doubtful and bad loans and this has led to a diminished ratio. Several banks have opted to write-off some bad loans accumulated since 2013 in an attempt to create fresh room for lending, grow assets and generate new interest incomes (Busuulwa, 2014a). The non-performing loans in Uganda reflect the health of the banking system. The NPLs show that banks have difficulty collecting interest and principal on their credits leading to less profit for the banks in Uganda (Cowans, 2011).

Regarding loan performance of Barclays Bank Uganda, the bank has not been spared of poor performance of loans. The latest African Alliance banking sector report NPL for Barclays stand at 21.4 per cent. Barclays Bank is the only big bank with a total asset base of Shs1 trillion that posted over 10 per cent NPL rate (Kulabako, 2013). Non-performing loans and other assets (NPAs) and bad debts written off continue to eat into the bank's profits, thus reducing affecting its performance (Businge, 2014). Barclays' bad debts that were written off by the bank amounted to Shs15.5 billion in 2013 yet this was a reduction down from Shs16.9 billion in 2012 (Kulabako, 2014). Bad loans to small and medium business segment have adversely affected the performance of the Bank. High default rates to continue to haunt the bank, especially of the undervalued credit risks (Busuulwa, 2014b). This contextual evidence shows that the bank faces a challenge of poor performance of loans. This led to the unanswered empirical gap as to what was the relationship between internal control systems and Loans Performance in the Banking Sector.

1.2 Statement of the Problem

Banks make money by charging interest on loans. The interest margin banks earn by intermediating between depositors and borrowers continues to be the primary source of profits for most banking companies (DeYoung & Rice, 2004). However, banks earn money when loan portfolio performance is high (Khan & Sattar, 2014). To promote performance of loans of banks in Uganda, Bank of Uganda introduced steps to ensure that the internal controls of banks were strong. Commercial banks were to operate in a prudent manner with laws and regulations punishing poor performance. All new products put in the market had to be approved by the Bank of Uganda (Bategeka & Okumu, 2010). Barclays Bank (Uganda) Ltd itself had internal controls such as between risk assessment, monitoring activities and control activities to prevent money laundering (Goredema, 2004). Despite all this effort, the Bank continued to experience poor performance of loans. NPL for Barclays stood at 21.4 per cent (Kulabako, 2013). Barclays' bad debts that were written off by the bank amounted to Shs15.5 billion in 2013 yet this was a reduction down from Shs16.9 billion in 2012 (Kulabako, 2014). Bad loans to small and medium business segment have adversely affected the performance of the Bank. High default rates to continue to haunt the bank, especially of the undervalued credit risks (Busuulwa, 2014b). If the problem of loans portfolio poor performance was not addressed, there would be decline of the banking sector. It was against this background that this study was carried out to analyse relationship between the Internal Control Systems of banks and loans performance.

1.3 Purpose of the Study

This study sought to analyse relationship between internal control systems and loans performance of Barclays Bank Uganda.

1.4 Specific Objectives of the Study

Specifically, the study sought;

i. To establish the relationship between risk assessment and loans performance of Barclays Bank Uganda.

ii. To find out the relationship between monitoring activities and loans performance of Barclays Bank Uganda.

iii. Find out the relationship between control activities and loans performance of Barclays Bank Uganda.

1.5 Research Questions

i. What is the relationship between risk assessment and loans performance of Barclays Bank Uganda?

ii. What is the relationship between monitoring activities and loans performance of Barclays Bank Uganda?

iii. What is the relationship between control activities and loans performance of Barclays Bank Uganda?

1.6 Research Hypothesis

There is a relationship between internal control systems and loans performance of Barclays Bank Uganda.

1.7 Scope of the Study

1.7.1 Geographical Scope

The geographic scope of the study was Kampala Capital City Authority area, Uganda at the main branch of Barclays Bank Uganda. The main branch is located at Hannington Road, on Nakasero Hill, in Kampala. This branch was selected because all the internal control mechanisms were directed from the branch since it was at this branch that management of the Barclays Bank Uganda operated from.

1.7.2 Content Scope

The content scope of the study was the internal controls system and loans performance in the banking sector. The variables of the study were risk assessment, monitoring and control activities. These were studied in relation to loans performance in terms of lending to credit worthy customers, increased loan repayment, loan purpose compliance and reduced cost of debt collection.

1.7.3 Periodic Scope

The periodic scope that was covered by the study was 2010 to 2015 a time when commercial banks in Uganda were experiencing high operational costs. This was sufficient time to provide sufficient information on how internal control systems affected loans performance in the banking sector.

1.8 Significance of the Study

The findings of the study are hoped to help management of banks realise the bottlenecks in internal control systems to poor loans performance. This will help in the prevention loss hence smooth operation of the banking sector. Consequently this will improve the performance of the banks.

The findings of the study will be used by financial institutions to reduce non-performing loans through better controls. This will lead to better performance exhibited by low loan write offs or bad debt provisions, decline in loan losses and increased profitability.

The study findings will help policy makers in formulating policies that will help in improving internal control systems for commercial banks. This will help to prevent loss by banks leading to better performance.

The findings will be useful for further research especially for those researchers carrying out studies on internal control systems of financial institutions. This is because it adds some knowledge and insights on the study and this will help in the extension of knowledge.

1.9 Justification of the Study

Although the loans form the greatest component of the credit service offered by commercial banks, there is a very big problem of default by the borrowers. Banks such as Teefee and Ugadev Banks in 1993 and later the International Credit Bank, the Co-operative Bank, the Greenland Bank and the Trust Bankhead had to close because of running out of liquidity (United Nations, 2002). Banks in Uganda face the challenge of non-performing with operational costs rising amid a backlash of surging bad loans (Busuulwa, 2013). The loan performance of Barclays Bank is poor with NPL standing at 21.4 per cent (Kulabako, 2013). Bad debts that were written off by the bank amounted to Shs15.5 billion in 2013 (Kulabako, 2014). Bad loans to small and medium business segment have adversely affected the performance of the Bank. High default rates to continue to haunt the bank, especially of the undervalued credit risks (Busuulwa, 2014b). To promote performance of loans of banks in Uganda, Bank of Uganda introduced steps to ensure that the internal controls of banks were strong. Commercial banks were to operate in a prudent manner with laws and regulations punishing poor performance. All new products put in the market had to be approved by the Bank of Uganda (Bategeka & Okumu, 2010). Barclays Bank (Uganda) Ltd itself had internal controls such as between risk assessment, monitoring activities and control activities to prevent money laundering. However, despite the existence internal controls, performance of loans remained poor. Thus, it was necessary to study the internal control systems of the banking sector and how they affected loans performance.

1.10 Definition of Concepts

Control activities: This refers to the policies and procedures that help ensure management directives are carried out (Ratcliffe & Landes, 2009). In relation to the study this refers to the policies and procedures the power companies have put in place to ensure proper finance management.

Internal Control Systems: Internal control systems include a number of methods and measures, which are exercised by the management to ensure smooth and economic functioning of business entity (Shanmugam et al. 2012). In this study they internal control systems have been conceived as control culture, risk assessment and monitoring activities of banks.

Loans Performance: A loan is arrangement in which a lender such as a bank gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point in time (Srinivas, 2014). Loans performance in this study will refer to loan repayment, proper use of borrowed money and reduced cost of debt collection.

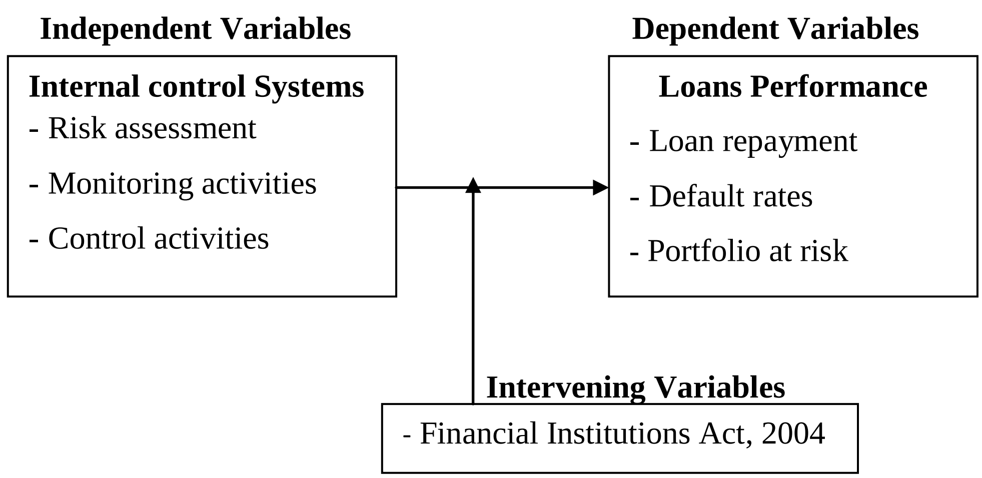
Monitoring Activities: This refers to the process of assessing the quality of controls through ongoing and periodical evaluations of the external supervision of internal controls by management or other parties outside the process (Agbejule & Jokipii, 2009). In this study it has been defined as audit, inspection and supervision.

Risk assessment: This is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence (Appiah, 2012). This in the study will refer to evaluation mechanisms to power companies have put in place to for proper financial management.

1.11 Conceptual Framework

There is a relationship between internal control systems and loans performance and Figure 1 provides a framework relating the two variables, namely internal control systems and loans performance. Internal control systems are conceived in terms of control culture, risk assessment and monitoring activities (Ayagre et al., 2014; Karagiorgos, Drogalas & Dimou, 2010; Ratcliffe & Landes, 2009). The dependent variable portfolio performance is operationalised in terms of loan repayment, default rates and portfolio at risk (Greuning, 2003; Glen & Mondragón-Vélez, 2011; Klein, 2013).

Figure 1.1**: Conceptual Framework**



Source: Framework drawn basing on concepts adopted from existing literature (Ayagre et al., 2014; Greuning, 2003; Glen & Mondragón-Vélez, 2011; Karagiorgos et al., 2010; Klein, 2013; Ratcliffe & Landes, 2009).

The above conceptual framework shows that internal control systems relate to performance of loans. Internal control systems mean the methods and measures, which are exercised by the management to ensure smooth and economic functioning of business entity (Shanmugam et al. 2012). The framework shows that internal control systems include risk assessment, monitoring activities and control activities. Doumpos, Kosmidou, Baourakis and Zopounidis (2002) indicate that the construct of risk assessment concerns the evaluation of the borrowers' financial and non-financial characteristics in order to make optimal decisions which incorporate tradeoffs between the potential risk of loss and the probability of profits from granting credit. With respect the construct of monitoring activities, Bukenya and Kinatta (2012) reveal that this is the process that assesses the quality of internal control performance over time through ongoing evaluations and includes regular management and supervisory activities, and other actions personnel take in performing their duties. With control activities, Tunji (2013) indicate that these are activities that help to eliminate the risk that would bring about the expected continuity of business comprising manual and computerised activities on accounting system to ensure prevention, early detection and correction of errors and frauds. According to the framework, these internal controls relate to loans performance.

Bushi (2016) indicates that performing loans are those loans that are paid or not experiencing delays in repayment with payments of interest and principal that have not exceeded 90 days past due. In other words, there is loan repayment, no default rates and no portfolio at risk. However, the framework shows that the Financial Institutions Act, 2004, has an intervening effect in the relationship between internal control systems and performance of loans. According to the Republic of Uganda (2004), the Financial Institutions Act, 2004 is the law relating to financial institutions; providing for the regulation, control and discipline of financial institutions by the Central Bank.

1.12 Conclusion

In conclusion, this chapter revealed that loans performance of the banking sector in Uganda was poor. However, the chapter showed that loans performance in terms of loan repayment, proper use of loans and reduced collection cost related to internal control systems. The internal control systems identified for this study were namely; risk assessment, monitoring and control activities.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is an analysis of existing literature on internal control systems and loans performance. The literature covers theories that were the basis for relating internal control systems and loans performance. The review of related literature was based on the order of the objectives. The related literature is on risk assessment, monitoring and control activities. While analysing the literature, contributions, weaknesses and existing gaps were identified.

2.1 Theoretical Review

2.1.1 Agency Theory. The agency theory proposes that there is an agency relationship when the actions of one individual affect both his welfare and that of another person in an explicit or implicit contractual relationship. The individual who undertakes the actions is the agent and the person whose welfare (utility), measured in monetary terms, is affected by agent's actions is called the principal (Padilla, 2002). The typical case of agency relationship is the one that exists between an employer (the principal) and his employee (the agent).In an agency relationship, the principal wants the agent to act in the principal's interest. However, the agent is expected to have his own interest and consequently, he may not act in the principal’s best interests. Then, the principal's problem is consequently to design an incentive contract that induces the agent to undertake actions that will maximize the principal's welfare. However, both the principal and agent are confronted with uncertainty. This uncertainty may appear in various ways. First, the principal is uncertain about actions undertaken by the agent and/or information held by the agent. The mainstream-economic theory terms the principal's uncertainty state asymmetric information.

There is a state of asymmetric information because the agent holds information that the principal does not. Second, uncertainty bears on the outcomes of the agent's actions. An agent is uncertain about the outcomes of his actions. For the principal, this latter phenomenon manifests itself more precisely in the fact that the principal is uncertain about the causality between agent's actions and the outcomes. This state of uncertainty and the resulting state of asymmetric information that exists between the principal and his agent impose certain constraints which complicate the forming of the contract. These constraints create two kinds of problems: a moral hazard and/or an adverse selection problem (Padilla, 2002).

Padilla (2002) explains that the moral hazard problem which he says arises when the principal cannot observe agent's actions because there is a positive cost of monitoring agent's actions and he is not even able to perfectly infer agent's actions by observing the outcome because the agent's actions do not completely determine the outcome. On the other hand, an adverse-selection problem appears when the agent possesses information that may prove useful to his decision-making and the principal does not know it. Therefore, the principal cannot know if the agent has made the most appropriate decision in light of the information possessed by the agent precisely because the principal does not have this information. The principal faces up, strictly speaking, to an asymmetric-information problem.

Due to the moral hazard and/or an adverse selection problem there is need for oversight. Musalem and Palacios (2004) indicate that the goal of oversight mechanisms in an agency relationship is to constrain the agent from acting improperly and provide it with incentives to act appropriately. The theory outlines that the company (the firm) is a "nexus of contracts" between shareholders (principal) and management (agents for the principal). Management are contractually bound to work for shareholders' best interests but if management know that they will not be monitored and potentially punished, management may exert less effort than possible (shirking) or take advantage of company's resources for their own personal benefit. As a result of information asymmetries and self-interest, principals' lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour. Various mechanisms may be used to try to align the interests of the agent with those of the principal, such as piece rates/commissions, profit sharing, efficiency wages, the agent posting a bond, or fear of firing (Eisenhardt, 1989).

However, the weaknesses of this theory are that it is one sided because it negatively characterizes an individual agent's moral and collective behaviour as self-seeking and focused on obtaining power and wealth; ignores worker loyalty, pride, and identification with the organization's mission and goals; and omits opportunistic behaviour by principals (Van Slyke, 2007). Nevertheless, the Agency theory importantly points out that managers of business organisations may not act in the interests of the shareholders in the case of this study, the owners of the bank and the board. This calls for internal control systems that need to be in place. The organisation owners have put constraints to prevent staff from carrying out fraud. This theory was the basis for relating the internal control systems namely; risk assessment, monitoring and control activities to loans performance.

2.1 Review of Related Literature

2.2.1 Risk Assessment and Loans Performance

Risk assessment concerns the evaluation of the borrowers' financial and non-financial characteristics in order to make optimal decisions which incorporate tradeoffs between the potential risk of loss and the probability of profits from granting credit (Doumpos, Kosmidou, Baourakis & Zopounidis, 2002). Different scholars have carried out studies relating risk assessment to loans performance. For instance, Lagat, Mugo and Otuya (2013) in their study, the effect of credit risk management practices on lending portfolio among savings and credit cooperatives found out a positive correlation between effective lenders assessment of the risk of borrowers and loans performance. However, the above study was carried out in savings and credit cooperatives in Kenya. These contextual gaps called for this study to be carried out in a commercial bank and in the Ugandan context.

Chodechai (2004) studying risk assessment revealed that banks have to be careful with their pricing decisions as regards to lending as banks cannot charge loan rates that are too low because the revenue from the interest income will not be enough to cover the cost of deposits, general expenses and the loss of revenue from some borrowers that do not pay. However, charging high interest rates might affect repayment levels leading to no-performing loans. Amonoo, Acquah and Asman (2003) studied the impact of interest rates on demand for credit and loan - repayment by the poor arid SMEs in Ghana. The findings of their study showed a negative relationship between interest rates and loan repayment. They established that lowering interest rates increased demand for credit and loan repayment in banks and non bank institutions. The study by Chodechai (2004) revealed that the need for setting appropriate interest rates while the Amonoo et al. (2003) indicated that there was a negative relationship between interest rates and loans performance. These contradictory findings called for this study to identify whether assessment of the effect of interest rates on the borrower related to loans performance.

Risk assessment involves risk evaluation, which involves evaluation of financial risk, business risk, market risk, managerial risk evaluation and evaluation of security risk (Berg, 2010). Evaluation of financial risk entails typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability and interest coverage ratios. Key parameters are internal rate of return (IRR), profitability, return on equity, return on investment, net profit to sales, expected growth rate of the project and payback period (Kabir, Jahan, Chisty & Hasin, 2010). Business risk evaluation involves analysis of the size of business, age of business, business outlook, industry growth, and market competition. Market risk evaluation entails examination of the integrity and consistency of the marketing assumptions and, where possible, helps in reformulating the project thereby increasing its likelihood of viability and sustained market performance. Key parameters are size of potential market, growth of demand, supply, promotional activity and demand forecasting and market planning (Verweir, 2006). On the other hand, managerial risk evaluation assessment of managerial ability including experience of the management, its succession plan and team work is managerial risk. Key parameters are experience, team work, skill of the manager and the management team. Evaluation of security risk includes assessment of the risk that the bank might be exposed due to poor quality or strength of the security in case of default is security risk. This may entail strength of security and collateral, location of collateral and support. Key parameters are security coverage (primary), collateral coverage (property location) and support (guarantee) (Kabir et al., 2010). Lagat, Mugo and Otuya (2013) studied effect of credit risk management practices on lending portfolio among savings and credit cooperatives in Kenya. Regression results of the study indicated that risk evaluation significantly predicted performance of lending portfolio of the Sacco's. Also, Moti, Masinde, Mugenda and Sindani (2012) using chi-square analysis, in a study on the effectiveness of credit management system on loan performance in Kenya established a significant relationship between collateral attached as security and loan performance. However, the above studies were carried out in the context of Saccos and in Kenya. These contextual gaps called for this study to be carried out in a commercial bank in Uganda to ascertain whether risk evaluation and the quality of collateral attached related to loan performance.

Kankiriho (2013) studied credit risk management and performance of loan portfolio in commercial banks in Uganda. Correlational results of the study revealed that credit risk assessment and performance of the loan portfolio were positively and significantly related. The study revealed that assessment procedures employed by the bank such as the CAMPARI model which considered character, ability, margins, purpose, amount repayment and insurance limits risk, the strict adherence rules, credit risk assessment methodology, careful investigations, preparing credit reports and considering factors for selection of the borrower, and credit grading improved the performance of banks loan portfolio. The bank credit officers through the use of these procedures established the ability of the borrower to repay. This helped the bank to determine the amount to lend to each individual, at what interest rate and whether to grant the loan or deny. However, the above study was carried out in Centenary bank which called for this study to be carried out Barclays Bank to confirm whether credit risk assessment and performance of the loan portfolio were positively and significantly related in different commercial banks.

Nnanna, (2005) found out that bank's lending decisions generally are fraught with a great deal of risks, which calls for a great deal of caution and tact in this aspect of banking operations. The study that suggested that success of every lending activity to a great extent therefore, hinged on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting. Kabir et al. (2010) explains that risk is inherent in all aspects of a commercial operation. This thus calls for credit risk assessment to; minimise bad loans by improving the risk/return. A bank should adopt and document a sound loan loss methodology, which addresses credit risk assessment policies, procedures and controls for assessing credit risk, identifying problem loans and determining loan provisions in a timely manner. However, the above studies were not particularly on Barclays Bank. This empirical study was thus carried out on Barclays Banks to establish the assessment mechanisms used by the banks and how they related to loans performance.

Kalimba (2005) expounds that in credit risk assessment, there is credit investigation. The investigation has to look at borrowers; managerial aspect, that is; sincerity, honesty, integrity, educational background, experience of the borrower and ability of the management to run the project efficiently. Importantly, the financial aspect that is the total requirement of fund for the business activities and how much will be required as loan from the bank, borrowers contributions in the business, cash inflow and out flow statement, sales forecast, balance sheet, profit and loss account etc has to be assessed. Moti et al. (2012) carried out a study on the effectiveness of credit management system on loan performance in Kenya. Chi results of the study revealed a significant positive relationship between establishing the character of the borrower, history of repayment of the customer and cash flow statements of the business and loan repayment. However, the above study was carried out in Kenya which might cause generalisation problems. This particular study was carried out in Uganda, assessing how in the context of Ugandan commercial banks, to establish assessing the character of the borrower, history of repayment of the customer and cash flow statements of the business related to loan repayment.

Namyalo (2007) suggest that credit assessment involves preparation of credit report. The credit report contains name and address of the client, nature of the firm and date of establishment, nature of business, investment in the business, subsidiary, net sales, annual net income, market reputation and means of finance particulars of bank account particulars of owner. And then considering the factors of selection of the borrower that include Five Cs: Character, Capacity, Capital/ Credit worthiness, Condition (Economic) and Collateral. Roy (2005) states that in credit risk assessment there is need for a Credit Risk Grading system (CRGS). Credit risk grading is an important tool for credit risk management as it helps the Financial Institutions to understand various dimensions of risk involved in different credit transactions. Credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the lending price, what should be the appropriate credit facility and what are the various risk mitigation tools to put a cap on the risk level. Moti et al. (2012) studied the effectiveness of credit management system on loan performance in Kenya. The chi-square results revealed a significant relationship between credit rating and loan performance. This means that credit rating, credit grading implied affects loan performance. However, the above study being only quantitative, this posed a methodological gap. This current study was carried out using mixed approaches for in-depth analysis.

2.2.2 Monitoring Activities and Loans Performance

Monitoring is a process that assesses the quality of internal control performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties (Bukenya & Kinatta, 2012). Regarding ongoing monitoring, this is activity of tracking the borrower's activities after obtaining a loan. From the approval and issuing of a bank loan and to its full reimbursement along with all corresponding debts, the purpose of the activity of tracking its course is to maintain, for the full extent of the crediting process, the initial conditions for its granting, in order to prevent that an initially well performing credit become underperforming due to the deteriorate of the borrower's economic-financial situation. The purpose of this activity is, generally, that of identifying, as early as possible, of clues about any problems that may appear during the course of the loan, so as to make possible, as early as can be, the taking of remedial measures with a view to anticipate the deterioration of the loan's debt (Ioan & Stratulat, 2012). Moti et al. (2012) studied the effectiveness of credit management system on loan performance in Kenya. Their descriptive results revealed that monitoring systems were an effective aspect of loan collection policies. When a stringent monitoring policy was adopted, it positively impacted loan performance. However, whereas, this study shows that monitoring impacts on loan performance, still gaps remain at contextual and empirical eleven. At the contextual level, the study was carried out in Kenya while at empirical level, the study only carried out a univariate analysis which could reveal the influence of monitoring on loan performance. This study was carried out in Uganda using bivariate and multivariate analyses to establish the strength of the relationship between monitoring and loans performance.

Concerning separate evaluations in monitoring, this is carried out by different teams such as internal and external auditors. Internal control is the system of internal administrative and financial checks and balances designed by management, and supported by corrective actions, to ensure that the goals and responsibilities of the organization are achieved (Cahill, 2006). External is the process of reviewing the accounting and financial books by a certified public accounting firms. This task is performed quarterly and annually, consistent with the reporting cycle for public investment. Companies of professional accountants perform this function to enhance the credibility of information. Deininger and Liu (2009) studied determinants of repayment performance in Indian micro-credit groups. Their findings revealed that regular audits and checking of books of accounts at meetings increased full repayment probabilities. Contextually, the above study was carried in India; this left a contextual gap that called for this particular study to be carried out in the context of banks in Uganda.

The monitoring process is one, which is simple, but at the same time very difficult to successfully implement. Accordingly, this process involves constant reconciliation by the bank of the customers' mortgage loan account (monitoring service trends) with project site visit reports and exhibited customer cooperation. The idea is to constantly remind the client of the fact that funds in his hands belongs to somebody else and must be repaid back within a stipulated time (Fratantoni and Schuh, 2003). Ayogyam, Goddana, Mohammed and Boateng (2014) studied monitoring loan repayment among farmers in Techiman, Ghana. Their study revealed that monitoring borrowers to make sure that they used the loans for the intended purpose helped in ensuring that borrowers paid back their loans. However, the emerging gap is that the context of the study was Ghana and methodologically, the study was carried out using the qualitative approach which causes generalisation problems. This called for this study to be carried out in Uganda using a mixed approach to enable generalisation of the findings.

Monitoring involves survival analysis method to measure response or time of an occurrence of an event. The aim of the survival analysis method is to measure the link between illustrative variables and survival. Investigating the timing when customers are likely to go “bad” is important for effective credit management policies. By this, the bank can manage and monitor profitability of clients to the bank over a customer’s lifetime. Efficient debt management determines the cash flow and the success of the day-to-day operations of the business. Poor credit management leads to late payment to creditors and other stakeholders in the supply chain. Thus credit management needs to ensure ample monitoring of cash flow as well as collection strategies from debtors (Hwarire, 2012). Mester, Nakamura and Renault (2001) carried out a study on checking accounts and bank monitoring on a bank in Canada. The findings of their study revealed that checking account information helps the bank to monitor commercial borrowers and this influenced loan repayment. However, the above study was carried out in a Western World context where banks have capacities for checking account information because of the level of technological advancement. This study was carried out in the context of a developing country to establish whether there was checking of accounts by banks in the contexts of developing countries and how this related to performance of loans.

Credit risk management processes enforce the banks to establish a clear process in for approving new credit as well as for the extension to existing credit. These processes also follow monitoring with particular care, and other appropriate steps are taken to control or mitigate the risk of connected lending (Singh, 2013). Credit framework of banks should be designed to serve as a tool for monitoring and controlling risk inherent in individual credits. Loan monitoring which is the work of the relationship manager in most cases is not a choice, but an imperative for effective and efficient credit administration in the banking sector. Problem loans can easily be spotted out. The banker's experience, knowledge of the customer's business and above all, faith in the customer can be a guide in taking a decision as to how far the customer can be supported before declaring the loan as bad (Aremu, Suberu & Oke, 2010). Odufuye (2007) indicates that an effective loan monitoring system includes monitoring compliance with established covenants, assessing where applicable, collateral coverage, relative to creditor's current condition, identifying contractual payment delinquencies and classifying potential credits on a timely basis, an direct actions at solving problems promptly for remedial management. Bichanga and Aseyo (2013) studied causes of loan default within micro finance institutions in Kenya. In their descriptive results, they found out that loan repayment default was as result of non supervision/ monitoring of borrowers. However, the above study was quantitative in nature not revealing how supervision was carried out. This study used a mixed approach for in-depth analysis of how banks carried out supervision of borrowers.

2.2.3 Control Activities and Loans Performance

Control activities are activities that help to eliminate the risk that would bring about the expected continuity of business. Therefore banks and other organisations are expected to impose reasonable control activities, manually and computerised, on accounting system to ensure prevention, early detection and correction of errors and frauds (Tunji, 2013). Ratcliffe and Landes (2009) explain that control activities are the policies and procedures that help ensure management directives are carried out. Control activities include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. Whereas the literature above revealed the range of activities carried out in monitoring, it did not reveal how they related with performance of loans. This study attempted to establish the relationship between the range of control activities and loans performance.

Internal controls activities include physical control of assets. Tunji (2013) suggest that physical access to assets and important records, documents, blank cheques, vouchers, inventory and securities should be restricted to only those who handle them. Accordingly, physical security of computer equipment and limited access to computer program files and other peripheral computer details should be enforced. The banks should establish information processing controls, manual information processing control procedures as well as computerised information processing control procedures in form of usage of passwords and access logs, all in a bid to eradicate malpractices that can lead to total extinction of the bank. Relatedly, Bukenya & Kinatta, (2012) explain that in an agency must establish physical control to secure and safeguard vulnerable assets. Examples of access controls to assets are as follows: locked door, keypad systems, card key system, badge system, biometric system, locked filing cabinet, guard, terminal lock, and computer password, automatic call-back for remote access, smart card, and data encryption. Chiezey and Agbo (2013) investigated the impact of fraud and fraudulent practices on the performance of banks in Nigeria. Their findings revealed that if banks strengthen their internal control systems and their supervisory role, they are able to check and curtail the incidence of fraud and fraudulent activities. However, the study above did not relate internal control systems and their supervisory role to loan performance but to the general performance of banks. This study specifically related internal control systems and their supervisory role on performance of loans.

Segregation of duties is an important control mechanism in risk management. Segregation of duties involves allocating work to different persons in such a way that either the work of one is complementary to the work of another person or another person independently checks the accuracy or correctness of work performed by one person as it helps employees know what to do and what others are to do (Bukenya & Kinatta, 2012). This is done to minimise errors and fraud and detect them in a timely manner when they take place. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets (Gyebi & Quain, 2013). Tunji (2013) points out that four functional responsibilities (authorisation, recording, custody and reconciliation) should be performed by different departments. Duties should be divided so that no one person can control two or more of the four independent responsibilities, to check abuses that can derail an organisation. However, the missing link was the relationship between separation of duties and loans performance. This study attempted to establish the relationship between separation of duties and loans performance in commercial banks.

On their part, Cédelle et al. (2007) indicate that accounting is an important activity of internal control. They explain that accounting is the system a company uses to measure its financial performance by noting and classifying all the transactions like sales, purchases, assets, and liabilities in a manner that adheres to certain accepted standard formats. It helps to evaluate a Company's past performance, present condition, and future prospects. Natad (2008) further explains that accounting processes are at the heart of internal control of accounting and financial information. Accounting systems are the methods and records that identify, assemble, analyse, classify, record, and report transactions. Tunji (2013) states that accounting seeks to establish a workable bookkeeping and accounting system that ensure that all transactions are recorded and accurately processed in the appropriate books of account. To ensure this, bank managers should be prudent, transparent, accountable and be of high integrity in the way they handle the affairs of their banks. However, with high levels of corruption in the country, it was not clear whether bank managers are prudent, transparent, accountable and of high integrity in the way they handled the affairs of their banks. This study sought to establish the conduct of bank managers and how these related to loans performance.

Internal audit is also one of internal control mechanisms employed by organisations such as banks. Internal audit is an independent appraisal activity established within an organisation as a service to the organisation. It is a managerial control, which functions by measuring and assessing the effectiveness of other controls. The internal auditors are part of the organisation and are typically responsible to the top management of the organisation. Internal audit units primarily perform a continuing assessment of the control systems and are a source of recommendations for improving the effectiveness of those systems. In addition, however, the internal audit unit can be used to examine apparent irregularities. Its findings can serve both as evidence of the need to strengthen the control systems and as a basis for determining what action may be appropriate against those who caused the irregularity (Havens, 2000). According to

Katnic (2011) internal audit itself is a unique part of the overall internal control system as it evaluates the effectiveness of internal controls to give assurance to the head of the entity on the extent to which the control can be relied upon. This indicates that internal audits help in unearthing irregularities and hence helping in solving risk problems and this will be investigated by the study. Sarens and De Belde (2008) established that internal control systems contribute to managerial effectiveness. The above literature reveals that internal audits help in unearthing irregularities. However, the gap that arose was that the literature did not reveal how the unearthing of irregularities related to loans performance. This study attempted to establish relationship between internal audits unearthing irregularities and loans performance.

Njanike et al. (2011) explain that corporate governance is one of the important activities of internal control. They explain that corporate governance refers to the manner in which the business of an enterprise is directed and controlled, how the corporate objectives are set and how corporate activities and expectations of the stakeholders are aligned. Alexander (2004) indicates that corporate governance involves the combination of the body of directors, management and controls that guide the firm. The board and senior management of financial institutions are responsible of financial institutions are responsible for promoting high ethical and integrity standards and for establishing a culture within the organisation that emphasis and demonstrated to all levels of personnel the importance of internal controls. Gyebi and Quain (2013) expound that corporate governance is the umbrella concept that drives a control and reporting framework, which in turn depends on risk management and an efficient system of internal control. However, the literature, above was not based on the context of Barclays bank to establish how corporate governance was carried out in the bank and how it influenced performance of loans. This empirical study was carried out on Barclays bank to establish how corporate governance was carried and how it influenced performance of loans.

Authorisation is also an important control activity in risk management. Natovich (2009) explains that business process management systems strengthen the authorisation mechanism and prevent potential threats. Accordingly, authorisation restricts employees and allows them to perform only predetermined activities according to their roles. In event-based systems, authorisation control is based on activity types. Natovich (2009) further indicates that each user or group is granted access only to certain activity types. Authorisations are not separate from the process, but are derived directly from the roles of the employees and their authority as defined in the process and are granted on the basis of the organisation’s business process rules.

Having staff of integrity is an important control tool. Accordingly, each bank needs to institute procedures for ensuring quality recruitment, selection and placement of competent and honest personnel that would discharge various duties and tasks effectively, with minimum supervision. It is when this control is in place that we can be sure of existence of trustworthy employees that would not collude with customers to defraud the bank and cause its imminent death (Tunji). Tabassum (2011) indicates that the goal of a recruitment program should be to attract highly qualified candidates and ensure person-job fit. Mismatch between the candidate and job can cost an organisation a great deal of money, time and energy. However, the above literature was not based on an empirical study and did not relate recruitment of qualified candidates with loans performance. This thus called for this empirical study to relae recruitment of qualified candidates with loans performance.

2.3 Conclusion

In conclusion, the above literature showed that internal control system involved risk assessment, monitoring and control activities. Risk assessment was shown to include risk identification, continuous auditing and all staff involvement while control activities include physical controls, appropriate staffing, stakeholder involvement and automation of activities. Monitoring was shown to include ongoing monitoring activities and separate evaluations. Control activities included appropriate policies, appropriate tone at the top, clear mission and objectives and sufficient supervision. Accordingly, internal control system related to loan performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology that guided this study. The chapter presents the research design, study population, sample size and selection, sampling methods of data collection, data collection instruments, data quality control, data management and analysis, ethical consideration, limitations and conclusion.

3.1 Research Design

The study adopted a case study design. The case study design was selected because it was an empirical inquiry that helped to investigate a contemporary phenomenon within its real life context. The case study design focussed on developing an in-depth understanding by to exploring describing and explaining phenomena by an exhaustive study (Ellis & Levy, 2009). Besides, the case study design was used because it allowed the use of both quantitative and qualitative data. The study adopted both quantitative and qualitative research approaches. The quantitative approach was adopted because the study drew statistical inferences. The qualitative approach supplemented the quantitative approach by providing detailed information in form of statements from interviews for in-depth analysis (Fassinger & Morrow, 2013).

3.2 Study Population

The population of this study constituted 120 respondents that were 33 credit officers, 71 banking officers, 6 sales representatives, 6 managers and 4 customer service consultants (Barclays Bank

Main Branch Staff List, July 2015). These were all staff involved in managing matters that involved internal controls. This population was studied because it was easily accessible because they worked for the bank and thus provided necessary data.

3.3 Sample size and selection

The size of the sample constituted 92 respondents that were 26 credit officers, 50 banking officers, 6 sales representatives, 4 customer consultants and 6 managers determined using the Small Sample Technique by Krejcie and Morgan (1970) (see appendix A). The sample was as presented in Table 3.1.

Table 3. 1: Population, Sample Size and Selection Technique

	Category	Population	Sample
1	Credit Officers	33	26
2	Banking Officers	71	50
3	Sales representatives	6	6
4	Customer Service Consultants	4	4
5	Managers	6	6
	Total	120	92

Source: Barclays Bank Main Branch Staff List, (July, 2015).

3.4 Sampling methods

The sample was selected using two sampling methods, namely stratified and purposive sampling techniques. By stratified sampling, the population was divided into sub populations that were credit officers, banking officers, sales representatives, managers and customer service consultants such that the elements in each subpopulation homogeneous (Amin, 2004). For purposive sampling, this was used to select managers as key respondents to provide in-depth responses for qualitative analysis. The method of purposive sampling was intensity purposive sampling which allowed the researcher to select a small number of rich cases that enabled the obtaining of in depth information (Patton, 2003). Purposive sampling helped in obtaining detailed data for in-depth analysis.

3.5 Collection Methods

Two methods of data collection were adopted by the study. These are namely, self-administered questionnaire (SAQ) and interviewing.

3.5.1 Questionnaire Survey

The study was a quantitative survey administered on staff of the bank. Therefore, the data collection method adopted was the survey, which involved the use of self-administered questionnaires (SAQs). This method enabled the researcher to cover the respondents more easily and at reasonable cost (Bordens & Abbott, 2011). The SAQ based method was also very suitable for the sampled respondents because they could easily respond to the questions because of their proficiency in the English Language which was used in the questionnaire survey.

3.5.2 Interview

Interviewing was the qualitative method of data collection. Using in-depth interviews, the respondents were asked their opinions and experiences about internal control system and loans performance. Through interviews, information of much detail was obtained by the researcher by talking to each respondent directly (Bordens & Abbott, 2011). Interview data was collected from the managers of the bank who six in number.

3.6 Data Collection Instruments

The study employed three instrument for data collection namely, questionnaire, interview guide and documentary review guide.

3.6.1 The Questionnaire

A self-administered questionnaire (SAQ) was administered on all the respondents except managers. The questionnaire was chosen because it served to collect appropriate data, made data comparable and amenable to analysis, minimised bias in formulating and asking of the questions and made questions varied. The questionnaire had identical sets of items for all respondents. The researcher used a close ended questionnaire for all respondents. The use of the questionnaire enabled the collection of data from a large number of respondents and also enabled respondents give sensitive information without fear as their personal identity was needed on the questionnaire. Questionnaires offered greater assurance of anonymity thus enabling the respondents to give sensitive information without fear (Amin, 2005). The questionnaire contained two sections, with section (A) on background characteristics being nominal questions with appropriate options given. Questions in section (B) were scaled using the five-point Likert from a minimum of 1 through 5. This instrument will help in collecting data quantitative in nature.

3.6.2 Interview Guide

This is a qualitative research tool containing semi structured question items on themes or areas to be covered during interviews with the respondents (Boyce, 2006). There were six interviews from managers for detailed information. These were sufficient interviewees because a sample of 5 to 25 interviewees is satisfactory (Mason, 2010). The interview helped in obtaining data for in-depth analysis.

3.7 Measurement of Variables

The background ground characteristics variables identifying the respondents were measured using the nominal scale with appropriate options given. Independent variables namely, namely risk assessment, monitoring activities and control activities were measured on the ordinal scale which is a ranking scale and possess the characteristic of order. The scale helped to distinguish between objects according to a single attribute and direction (Smith & Albaum, 2013). The ranking was on the five-point Likert scale (Where 1 = strongly disagree 2 = disagree 3 = undecided 4 = agree 5 = strongly agree).

3.8 Quality Control Methods

3.8.1 Validity of Data Collection Instruments

Content validity Index was considered in this study. The researcher sought the expert opinion of the supervisors on the relevance; wording and clarity of the items in the instrument. Quantitative data was subjected to Confirmatory Factor Analysis using Principle Component Analysis. Items loading 0.50 once on the component/ factor were adopted, that is items loading low that is below 0.50 were dropped while items that cross loaded or split loaded that is those items that loaded

0.50 and above on more than one component were also dropped (Martin & Sass, 2010). This helped in attaining construct validity of the study items. Confirmatory Factor Analysis test was carried out using SPSS 20.0. The confirmatory factor analysis results are presented in Tables 3.2 -3.4.

3.8.2 Reliability of Data Collection Instruments

Reliability for qualitative data was obtained through peer debriefing, prolonged engagement and audit trails. Reliability for quantitative data was determined by calculating Cronbach Alpha (α) using SPSS 20.0. The instruments were found valid at above 0.70 (70) after data collection. A reliability of 0.70 (70%) indicates consistency in the scores that are produced by the instrument (Amin, 2005). The results are presented in Tables 3.2 -3.5.

Table 3. 2: Factor Loadings and Cronbach for Items on Loans Performance

Loans Performance Components	**Component**		**Cronbach**
	1	**2**	**alpha (α)**
The rate of loan recovery is high	0.808	0.050	0.832
There is prompt repayment	0.707	0.092	
Repayment schedules are respected	0.734	0.049	
There is orderly and full payment	0.835	-0.076	
Loan portfolio performance of the bank is good	0.829	-0.117	
There are fewer hurdles in the attaching of collateral	0.858	-0.155	
Fewer customers obtain loans fraudulently	0.877	-0.090	
The bank intervenes early to recover the deteriorating loans	0.199	0.748	
Most customers are motivated to pay	0.141	0.851	
Customers are conscious of their loan obligations	-0.045	0.824	

Extraction Method: Principal Component Analysis

The component/ factor Factor Loadings in Table 3.2 show that all the items measuring loans performance were valid because each item loaded highly, that is above 0.50 on either component/ factor one or two only once. The Cronbach alpha result ($\alpha = 0.832$) being above 0.7 indicates that the items were internally consistent and thus all reliably measured loans performance.

Table 3. 3: Factor Loadings and Cronbach for Items on Risk Assessment

Risk Assessment Components	Component				Cronbach alpha (α)
	1	2	3	4	
I effectively assess the risk of borrowers	0.411	-0.315	0.613	-0.196	0.762
I assess the appropriateness of interest rates	0.256	0.825	.063	-0.291	
I carefully evaluate credit worthiness of borrowers	0.721	0.058	0.213	-0.073	
I carefully establish the value of collateral	0.443	0.638	0.013	-0.303	
I strictly follow rules of the lending process	0.445	0.153	-0.401	0.532	
I carefully consider factors of selection of the borrower at the bank	0.639	0.183	-0.345	-0.030	
I carefully assess the financial character of borrowers	0.395	0.322	0.472	0.563	
I carefully assess history of repayment of borrowers	0.760	-0.206	0.159	0.310	
I carefully assess cash flow statements of borrowers	0.675	-0.320	-0.399	-0.233	
I follow the credit grading system of bank while assessing borrowers	0.748	-0.462	-0.029	-0.236	

Extraction Method: Principal Component Analysis

The component/ factor Factor Loadings in Table 3.3 show that all the items measuring risk assessment were valid because each item loaded highly, that is above 0.50 on either component/ factor one to four only once. The Cronbach alpha result (α = 0.762) being above 0.7 indicates that the items were internally consistent and thus all reliably measured risk assessment.

Table 3. 4: Factor Loadings and Cronbach for Items on Monitoring Activities

Monitoring Activities Components	**Component**		**Cronbach alpha (α)**
	1	**2**	
Borrowers are effectively monitored	0.745	-0.401	0.783
Regular audits and checking of books of accounts of borrowers are carried out	0.463	0.690	
Customers are followed to ensure that loans money is used strictly for the intended purposes	0.830	-0.056	
There is regular checking of performance of the accounts of borrowers	0.405	-0.118	
Borrowers' compliance with covenants is monitored	0.754	-0.504	
The bank ensures the value of collateral is updated periodically to account for changes in market conditions	0.569	-0.053	

Extraction Method: Principal Component Analysis

The component/ factor Factor Loadings in Table 3.4 show that all the items measuring monitoring activities were valid because each item loaded highly, that is above 0.50 on either component/ factor one or two only once. The Cronbach alpha result (α = 0.783) being above 0.7 indicates that the items were internally consistent and thus all reliably measured monitoring activities.

Table 3. 5: Factor Loadings and Cronbach for Items on Control Activities

Control Activities Components	Component 1	2	3	4	Cronbach alpha (α)
Loans are disbursed only after approval by the manager	-0.052	-0.033	0.235	0.914	α = 0.715
Loans are disbursed after thorough verification of the borrowers	-0.307	0.404	0.641	0.029	
The bank regularly carries out reconciliation on borrowers	0.609	-0.252	0.486	-0.192	
The loan disbursement process is highly supervised by management staff	-0.854	-0.066	-0.239	-0.096	
The bank has segregated of duties in loans disbursement	-0.593	0.525	0.341	-0.160	
Managers act prudently in the offering of loans	0.121	0.719	-0.017	0.160	
The loan management process is transparent	0.333	0.632	-0.412	-0.259	
High integrity is observed in the way they managers handle loan processes	0.288	-0.028	0.686	-0.241	
The board and senior management are involved in the management of loans	0.648	0.421	-0.227	0.205	

Extraction Method: Principal Component Analysis

The component/ factor Factor Loadings in Table 3.5 show that all the items measuring control activities were valid because each item loaded highly, that is above 0.50 on either component/

factor one to four only once. The Cronbach alpha result ($\alpha = 0.715$) being above 0.7 indicates that the items were internally consistent and thus all reliably measured control activities.

3.9 Data Analysis

3.9.1 Qualitative Data

The study identified patterns and connections within and between categories of data collected. The data were presented in form of notes, word-for-word transcripts, single words, brief phrases and full paragraphs (Powell & Renner, 2003). Data were interpreted by content analysis composing explanations and substantiating them using the respondents open responses. While analysing qualitative data, conclusions were made on how different variables were related.

3.9.2 Quantitative Data

Quantitative data was analysed using statistical package for social sciences (SPSS 17.0). The data analysis was done at different levels, namely univariate, bivariate and multivariate. At univariate level, the data was based on percentages from the frequency tables and descriptive statistics such as the mean. At bivariate level, the dependent variable (DV), loans performance was correlated internal control systems the independent variables (IVs). At multivariate level, the DV loans performance was regressed on the IVs, namely risk assessment, monitoring and control activities using multiple regressions.

3.10 Ethical Considerations

The researcher sought an introductory letter from the University introducing the researcher to the Managing Director Barclays Bank Uganda. The researcher ensured respect of the rights of for others all the way through this research. For instance, material borrowed from other sources such as journal articles was acknowledged at the respective spots in the in the study. Before collecting data from the respondents, their consent was sought and they were informed that participation was voluntary. The respondents were appropriately informed directly by the researcher of the purpose of the study, why and how they were chosen. They were further assured of confidentiality of their responses and informed that information given would be kept anonymous. Appointments were made with the selected respondents to allow them select their own convenient time of participating in the study. During data management, quantitative results were reported in aggregate form using such measures as means, standard deviations, correlations and regression coefficients. Honesty was maintained by ensuring that data presentation, analysis and interpretation were strictly based on the data collected. While administering the interviews, the researcher kept jotting down the major points. Thereafter, data was coded, analysed, and the report written.

3.11 Limitations

The study being a case study faced a number of limitations. The first limitation was that making causal conclusions for generalisation would be difficult because of representativeness of the population. This was because alternative explanations could not be ruled out. This was because the study involved one unit of analysis that was only staff of one Bank, Barclays Bank. However, the result tried to be comprehensive in data collection from the respondents to reduce challenges of generalisation of findings. Incorrectly or illegibly filled out questionnaires, or even missing answers, would inevitably influence the quality of the data obtained, and have the potential to further lower the number of useable questionnaires. These were minimised by the researcher explaining to the respondents the purpose of the study and further assured them of confidentiality of their responses and informed that information given would be kept anonymous.

Questionnaires do not offer the researcher the opportunity to follow up ideas and clarify issues - one of the main strengths of interviews. In this research, use of in depth interviews enabled the researcher to obtain information of much detail from managers.

Additionally access to the bank's policies and procedures and all credit related reports was initially not very easy as this information is regarded highly sensitive. The limitation was overcome by building confidence among the managers and agreeing to sign a confidentiality clause.

3.12 Conclusions

This chapter identified the methodology that guided the study. The methodology helped the researcher to identify the techniques relevant for the study, the assumptions underlying the various techniques and their applicability. This helped in obtaining of appropriate data and setting the ground for the presentation and interpretation of collected data.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

This chapter contains the presentation, analysis and interpretation of the findings on internal control system and loan performance in the banking sector in Barclays Bank Uganda Kampala Main Branch. Analysis of the study was based on the objectives of the study that sought to establish the relationship between risk assessment, monitoring activities and control activities and loans performance of Barclays Bank Uganda.

4.1 Response Rate

The researcher distributed 92 questionnaires for questionnaire survey data for quantitative analysis. However, fully filled questionnaires were retrieved from 92 respondents that is a response rate of 100%. For interview data, data was collected from all the anticipated six respondents. This response rate was considered good enough as Sivo, Saunders, Chang and Jiang (2006) indicate that a response rate of 60% is adequate for a study in social sciences.

4.2 Background Characteristics

This section presents facts about the respondents, namely; gender, age category, education levels, working experience and positions of the respondents in the district. The data on background characteristics of the respondents is given in Table 4.1.

Table 4.1: Respondents Background Characteristics

Item	Categories	Frequency	Percent
Gender of the Respondents	Male	52	56.5
	Female	40	43.5
	Total	**92**	**100.0**
Age Category	Below 30 Years	17	18.5
	30-40 Years	39	42.4
	41-50 Years	29	31.5
	Above 50 Years	7	7.6
	Total	**92**	**100.0**
Education levels	Diploma	5	5.4
	Bachelors Degree	84	91.3
	Post Graduate Degree	3	3.3
	Total	**92**	**100.0**
Positions in the Bank	Credit Officers	26	28.3
	Banking Officers	56	54.4
	Sales representatives	6	6.5
	Customer Service Consultants	4	4.3
	Managers	6	6.5
	Total	**92**	**100.0**
Working experience	Less than 5 years	20	21.7
	6-10 years	49	53.3
	10 and above years	23	25.0
	Total	**92**	**100.0**

Source: Primary Data (2016)

4.2.1 Gender Characteristics of the Respondents

The results on gender show that the modal percentage (56.5%) was male with females being 43.5%. This suggested that the larger percentage of the respondents were males. However, the gap between the two gender groups was not very wide, that is 13.0%. This means that the views solicited represented both gender groups.

4.2.2 Age Categories of the Respondents

The data on age categories of the respondents in years, showed that the modal percentage (42.4%) of the respondents was of those that were between 30-40 years followed by 31.5% who were between 41-50 years, then 18.5% who were below 30 years and the smaller percentage (7.6%) were those above 50 years. This means that most of the respondents were above 30 years. With the majority of the respondents being of higher categories, this suggested they had enough experience working with the bank. Therefore, they believed to have provided reliable data.

4.2.3 Education Level of the Respondents

The results on the highest level of education attained by the respondents showed that the modal percentage (91.3%) of the respondents was of those who had bachelor degrees, 5.4% had diplomas and 3.3% had post graduate degrees. This suggests most of the respondents had the higher levels of education that is bachelor degrees and above. Therefore, they gave appropriate data because of their proficiency in English, the language used in the questionnaire survey.

4.2.4 Positions of the Respondents

The data on positions of the respondents in the bank show that the modal percentage (54.4%) of the respondents was of banking officers 28.3%, the credit staff 6.5%, sales officers and 4.3% customer consultants and managers 6.5%. This means the dominant category of the respondents were banking officers. The above background helped in obtaining data representative of the different categories of people on internal controls and loan performance of banks. Pertaining to the working experience of the respondents, the modal percentage (53.3%) had 6-10 years, 25.0% had 10 and above years while 21.7% had less than five years. The results mean that most of the respondents had a working experience of more than five years.

4.3 Description of the Dependent Variable: Loans Performance

The self administered questionnaire (see Appendix B) shows that the dependent variable (DV) namely, loans performance was measured using 10 items. The 10 items measuring loans performance were whether the rate of loan recovery was high, there was prompt repayment, repayment schedules were respected, there was orderly and full payment, loan portfolio performance of the bank was good and there were fewer hurdles in the attaching of collateral. The items also included there being fewer customers obtaining loans fraudulently, the bank intervening early to recover the deteriorating loans, most customers being motivated to pay and customers being conscious of their loan obligations. The above items were scaled using the five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree. Basing on the five-point Likert scale that was used, the median score of three was considered undecided (1+2+3+4+5 =15/5 = 3) while the mean above the median score indicated that the respondents agreed and the mean below median score indicated that the respondents disagreed. For each of the above items measuring loan performance, descriptive statistics that include means and standard deviation are presented. The results are as presented in Table 4.2.

Table 4.2: Descriptive Statistics on Loans Performance

Loans Performance	Number	Mean	Std Dev
The rate of loan recovery is high	92	3.73	1.16
There is prompt repayment	92	3.11	1.26
Repayment schedules are respected	92	3.11	1.23
There is orderly and full payment	92	3.26	1.33
Loan portfolio performance of the bank is good	92	3.41	1.27
There are fewer hurdles in the attaching of collateral	92	3.53	1.20
Fewer customers obtain loans fraudulently	92	3.52	1.27
The bank intervenes early to recover the deteriorating loans	92	2.95	1.36
Most customers are motivated to pay	92	3.00	1.29
Customers are conscious of their loan obligations	92	3.30	1.22

Source: Primary data (2016)

4.3.1 Loan Recovery

The results in Table 4.2 on whether the rate of loan recovery was high had a mean = 3.73 close to code 4 above the median score which suggested that the respondents agreed. However, the high standard deviation = 1.16 implied high dispersion in the distribution of the results. Nevertheless, the mean being above the average, the results indicated that the rate of loan recovery was good. In the summary responses of the questionnaire, largely the respondents revealed that loan recovery was high. One respondent stated, "*The loan performance of the bank is good but needs improvement because still the number of nonperforming loans if high*." Another respondent stated, "*Loan recovery is good, but cash flow monitoring needs to be done in order to capture loans that are going bad*." While another respondent stated, "*Loan performance of the bank is rated to be fair and loans are the major source of revenue for the bank*." The above views that reflect the results of the descriptive statistics suggesting there loan recovery of the bank was good.

The finding above that loan recovery was good was consistent with Moti, Masinde, Mugenda and Sindani (2012) found that in loan performance in microfinance institutions was good but because of involvement of credit officers and customers in formulating credit terms affects loan performance. They also indicated that credit risk controls adopted by microfinance institutions, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refraining customers from further borrowing had an effect on loan performance. In relation to the above, Olomola (2002) also found out high loan recovery resulting from stringent and lenient policies adopted. This means that loan recovery in banks can be good if measures and policies are in place to ensure recovery.

4.3.2 Promptness of Loan Repayment

The results on promptness of loan repayment show were a mean = 3.11 close to the median score, three, meaning that the respondents were undecided, and with a high standard deviation = 1.26, it meant that there was variation in the results. However, with the mean close to the median score which was the average, the results suggested that promptness of loan repayment was fair.

In relation to the above, as to whether customers respected repayment schedules, the mean = 3.11 was close to median score, three, meaning that the respondents were undecided, and the high standard deviation = 1.23, meant that there was variation in the responses. Even so, the mean close to the median score, three which is the average suggested that respect for repayment schedules was fair. In the open responses, the respondents revealed that, largely customers tried to honour their repayment schedules and repay promptly although the number of defaulters was also high. Accordingly, for most of the respondents as long as their cash flows remained good, they honoured their repayment schedules and paid their loans promptly because it guaranteed them the opportunity for continuing to borrow from the bank.

The above finding that there was high prompt loan repayment is similar to the findings of other scholars. For instance, Kankiriho (2013) found out that loan repayment was good. Tayebwa also found out that loan repayment was good but because of loan repayment mechanisms that included nurturing an appropriate credit culture, having adequate loan monitoring and recovery mechanism in place, verifying that the loans are used for the intended purpose and adequate documentation of credit monitoring reports on borrower's file. Likewise, Ajah and Ofem (2014) found out that that loan repayment was high but among those with high educational levels and because banks exercised supervision on loan beneficiaries so as to encourage prompt repayment of loan.

4.3.3 Full Loan Repayment

The results on whether there was full loan repayment, the results were a mean = 3.26 close to median score, three, meaning that the respondents were undecided, and the high standard deviation = 1.33, meant that there was variation in the responses. However, still the mean close to the median score, three which is the average indicated that that fairly, there was full loan repayment.

The above finding that there was fair orderly and full loan repayment of loans agrees with Kankiriho (2013) who reported that full repayment of loans was average. However, the finding is inconsistent with Kohansal and Mansoori (2009) who contended that lending is a risky enterprise because repayment of loans can seldom be fully guaranteed and repayment was fraught with a many problems. Similarly, Awoke (2004) reported that there was large rate of default arising from poor management procedures, loan diversion and unwillingness to repay loans. This means that full loan repayment was hard. Above all, this current study revealed that loan repayment was fair.

4.3.4 Loan Portfolio Performance of the Bank

The results on whether loan portfolio performance of the bank was good, the mean = 3.41 was close to median score, three, meaning that the respondents were undecided, and the high standard deviation = 1.27, meant that there was variation in the responses. Nevertheless, the mean close to the median score, three which is the average suggested that portfolio performance of the bank was fair. In the open responses of the questionnaire, the respondents indicated that largely, loan portfolio performance was good. One respondent stated, "*Since the loan volatility of 210-213 when the economy was very low, the situation has improved and loan portfolio performance of the bank improved*." Another respondent stated that, "Loan performance of the bank is good because lending is now largely restricted and risky borrowers are now rarely offered loans.

Customers who now easily obtain loans are government salary workers and those with sufficient security." The above views mean that loan performance of the bank was good but because there was regulated lending.

The above finding shows that loan performance of the bank was good because there was regulated lending, this concurs with the findings of other scholars. Tayebwa (2013) found out that strategies due to the system of guaranteeing, the procedural guidelines relating to credit risk monitoring, defining objectives, goals and expectations of the loan to be disbursed, establishing adequate research and plan before disbursement of the loan and putting in place stringent evaluation led to loan repayment. Similarly, Mayanja (2012) found out that Assessment measures like CAMPARI model which considers character, ability, margins, purpose, amount repayment and insurance helped in confirming to the Bank that one would be in position to repay the loan hence limiting risk. Therefore, loan performance can be good but if there is regulated lending.

4.3.5 Attaching of Collateral

The results on whether there were fewer hurdles in the attaching of collateral, the 3.53 = was close to code 4 above the median score which suggested that the respondents agreed. However, the high standard deviation = 1.20 implied variation in the distribution of the results. Importantly, the mean being above the average, the results indicated that largely, there are fewer hurdles in the attaching of collateral. The respondents revealed that attachment of face fewer huddles. One respondent stated, "*Before property such as family property is pledged as security, the consent of the spouse is sought, this thus removes hurdles in attaching property*." Another respondent stated, “The bank ensures that property attached has no encumbrances is used as security for borrowing. Thus, attaching property after failure to pay loans faces low hurdles though sometimes it involves court battles.” The above views thus concur with the results of the descriptive statistics that there were fewer hurdles in the attaching of collateral.

The above finding that there were fewer hurdles in the attaching of collateral is supported by Karumba and Wafula (2012) who found out that eevidence of over-reliance on collateral lending by the banking sector in Kenya was high because of the ease with which collateral could be attached. Collateral left the borrower with no room to move to a more attractive option by another lender, even in an environment of changing interest rates. With collateral, it was not possible for the borrower to switch to a financial services lender with more competitive rates making loans unresponsive to changing interest rates. Relatedly, Japhet and Memba (2015) most banks preferred movable valuable collateral such as motor vehicles because they were easy to attach. This means that collateral that is easily attachable enhances loan repayment.

4.3.6 Customers Obtaining Loans Fraudulently

The results on whether fewer customers obtain loans were a mean = 3.52 tending towards code 4 above the median score which suggested that the respondents agreed. However, the high standard deviation = 1.27 indicated variation in the distribution of the results. The mean being above the average, the results indicated that largely, fewer customers obtained loans fraudulently. In the open responses of the questionnaire, the respondents gave responses that generally similar with the results of the descriptive statistics. One respondent stated, “*Loan performance of the bank is improving slowly. There are no fraudulent loans given hence NPA* *ration in turn is going down*." Another respondent stated, "*The management of the bank is strict to rules, thus staff largely refrain from offering fraudulent loans."* However, one respondent stated, "*There are some crafty staff who connive with customers and over rate securities, hence offering loans above the security. However, when these are detected, serious disciplinary actions are taken in most cases with dismissal of the concerned staff being the ultimate punishment.*"

The results above suggested that there were low chances for customers to obtain fraudulent loans. This finding supported Khanna and Arora (2009) who found out that there were minimal chances of customers obtaining fraudulent loans because of a strong system of internal control and good employment practices that prevented frauds and mitigates losses. Like was, Abiola and Oyewole (2013) indicated that internal control systems in banks prevented fraud. This means that in banks that were limited chances of obtaining fraudulent loans because of internal controls.

4.3.7 The Bank Intervening Early

As to whether the bank intervened early to recover the deteriorating loans, the mean = 2.95 was slightly below the median score, three, suggesting that the respondents were undecided and he standard deviation = 1.12 high indicating dispersion in the distribution of the results. The mean slightly below the average suggested that to a lesser extent, the bank intervened early to recover the deteriorating loans. In the summary responses of the questionnaire, the respondents revealed that if the bank detected signs of failure of customers to repay their loans, the bank sent them reminders, called the borrower for a dialogue and in some cases rescheduled loan repayment if the customers requested. This means that the bank tried to intervene early to recover deteriorating loans.

The above finding that banks intervening early to recover loans improved performance of loans concurs with the findings of other scholars. Essel and Newsome (2000) state that early intervention measures such as inspection and review and rescheduling of loans ensured recovery of loans. Chikomba, Dube and Tsekea (2013) indicated that inspection, review and regular analysis and re-rating of credits by credit officers were effective internal credit measures that enhanced loan repayment. This means that banks intervening early helped to enhance loan performance in the banking sector.

4.3.8 Customers Motivation to Repay

The results on whether most customers were motivated to pay had a mean = 3.00 equal to the median score, three, suggesting that the respondents were undecided. The high standard deviation = 1.29 indicated variation in the distribution of the responses. The average mean suggested that for most customers motivation to repay loans was fair. Relatedly, as regards customers being conscious of their loan obligations, cumulatively the larger percentage (60.9%) of the respondents agreed with 33.7 % disagreeing while 5.4% were undecided. The mean = 3.30 was close to median score, three, meaning that the respondents were undecided, and the high standard deviation = 1.22, meant that there was variation in the responses. Nevertheless, the mean close to the median score, three which is the average indicated that that fairly, customers are conscious of their loan obligations. The above finding that motivation to repay loans is fair agrees with the findings of other scholars. Awoke (2004) reported that default a rose from unwillingness to repay loans. However, Kettle, Trudel, Blanchard and Haubl (2016) found out that repayment strategies tend to boost consumers' motivation to become debt free, leading them to repay their debts more aggressively. This means that motivation of loan repayment was low but motivation strategies encouraged customers to repay their loans.

4.3.9 Summary Opinion on Loan Performance

In the summary responses of the questionnaire, the respondents in relation to customers being motivated to repay their loans and being conscious of their loan obligations, the respondents gave opinions which reflected the results of the descriptive statistics. The respondents revealed that largely customers had the motivation to repay their and were conscious of their loan obligations. One respondent stated, "*Customers are reluctant to pay because majorly of character, but are fully aware of their loan obligations*." Another respondent stated, "*Customers have the willingness to repay but because but fail because of financial inability and when given some concessions, majority fulfill their obligation*." Another respondent reported, "*Customers know that they have loans with the bank and are willing to pay except when they face unexpected unanticipated situations that make them fail fulfil their loan obligations.*" Overall, the above views indicate that customers had the motivation to repay their loans and were conscious of their loan obligations.

To establish an overall picture of how the respondents rated loan performance of the bank, an average index of loan performance was computed for the 10 items measuring loan performance. The summary of the statistics on the same were the mean = 3.29 and standard deviation = 0.795. The results show that the overall mean was average that is close to code 3 indicating that the respondents were undecided on the loan performance of the bank. This meant that the respondents rated loan performance of the bank to be fair. The low standard deviation suggested low dispersion in the responses which suggested normal distribution of the results. Figure 2 presents a histogram indicating normal distribution of the average index for loan performance.

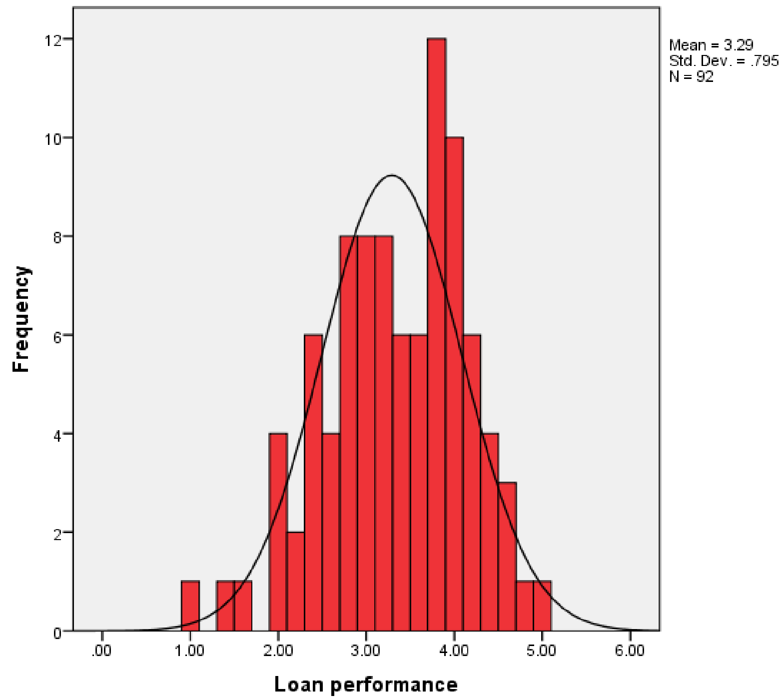


Figure 4.1: Histogram Indicating Distribution of Loan Performance.

The histogram (Figure 2) shows a normal distribution which implies that the index on loan performance can be subjected to correlation and linear regression analysis and valid results be obtained.

4.4 Objective One: To establish the Relationship Between Risk Assessment and Loans Performance of Barclays Bank Uganda.

To establish the relationship between risk assessment and loans performance, a number of items investigating risk assessment were put to the respondents. The items studied included the bank effectively assessing the risk of borrowers, appropriateness of interest rates, carefully evaluating credit worthiness of borrowers, the value of collateral and strictly following rules of the lending process. The items also included the bank carefully considering factors of selection of the borrower at the bank, carefully assessing the financial character of borrowers, carefully assessing history of repayment of borrowers, assessing cash flow statements of borrowers and following the credit grading system of bank while assessing borrowers. The above items were scaled using the five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree. Basing on the five-point Likert scale that was used, the median score of three was considered undecided (1+2+3+4+5 =15/5 = 3) while the mean above the median score indicated that the respondents agreed and the mean below median score indicated that the respondents disagreed. For each of the above items measuring risk assessment, descriptive statistics that include means and standard deviation are presented. The results on the items are given in Table 4.3.

Table 4.3: Descriptive Statistics on Risk Assessment

Risk Assessment	Number	Mean	Std Dev
Borrowers risks are effectively assessed	92	4.01	1.09
The appropriateness of interest rates is assessed	92	3.58	1.03
Credit worthiness of borrowers is carefully evaluated	92	3.17	1.17
The value of collateral is carefully established	92	3.48	1.23
Rules of the lending process are strictly followed	92	3.32	1.15
Factors of selection of the borrower are carefully followed	92	3.23	1.29
The financial character of borrowers are carefully assessed	92	3.54	1.20
History of repayment of borrowers is carefully assessed	92	3.21	1.35
Cash flow statements of borrowers is carefully assessed	92	3.00	1.30
The credit grading system of bank while assessing borrowers if followed	92	3.54	1.27

Source: Primary data (2016)

4.4.1 Effective Risks Assessment

The results in Table 4.3 regarding whether borrowers risks were effectively assessed the mean = 4.01 which on the five-point Likert scale (from a minimum of 1 for the worst case scenario strongly disagree to a maximum of 5, which is the best case scenario strongly agree) that was used to measure responses was close to 4 which signified agreed. However, the high standard deviation = 1.09 variation in the responses. Nevertheless the mean = 4.01 indicated that the respondents agreed that borrowers risks were effectively assessed.

In the summary responses of the questionnaire, in their analysis of the credit risk assessment of the bank, several responses were given indicating that borrowers' risks were effectively assessed.

One respondent stated, "*The current credit risk assessment of the bank is satisfactory.*" Another respondent stated, "*Credit assessment of the bank has improved with emphasis on adherence to policy and procedure*." Responses related to the above, were given during interviews, one respondent stated, "Borrowers risks are effectively assessed and this has improved the overall asset quality of the bank." Another stated that "Borrowers risks are effectively assessed and this significantly reduces chances of offering loans to clients likely to default hence good performance of the loan portfolio." Further, it was pointed out that the bank in assessment of borrowers risk looked at the character, ability, margins, purpose and the sources of finances for repayment by the borrowers. It was revealed that the staff of the bank carried out site visits and the client business records which would be assessed to see whether the clients request conformed to the bank lending policy. Overall the views above revealed borrowers' risks were effectively assessed. The results above reveal that assessing borrowers' risks effectively was important. This finding is consistent with findings of other scholars. For instance, Lagat et al. (2013) revealed that there was a positive correlation between effective lenders assessment of the risk of borrowers and loans performance.

4.4.2 Assessment of Appropriateness of Interest Rates

The results on assessment of appropriateness of interest rates, were mean = 3.58 close to four suggested that the respondents agreed but the high standard deviation = 1.03 implied that the responses were varied. However, the mean above average implied assessment of appropriateness of interest rates was good. In the interviews, the respondents revealed that the bank assessed the appropriateness of interest rates. It was revealed that, for high risk borrowers, interests were set high to offset the anticipated failure to repay. However, it was revealed that in setting interests, the bank ensured that it did not set interests that would impede repayment, but had to ensure that interest rates covered the cost of managing loans. Overall, the results above reveal that the bank carried out assessment of appropriateness of interest rates. This means that it is important to carry out assessment of appropriateness of interest rate. This finding supports previous scholars such as Amonoo et al. (2003) who established interest rates determined loan repayment in banks and Chodechai (2004) who revealed that there was need to set appropriate interest rates.

4.4.3 Evaluation of Credit Worthiness of Borrowers

The results on whether credit worthiness of borrowers was carefully evaluated were mean = 3.17 close to the median score, three, suggested that the respondents were undecided. The high standard = 1.17 implied that the responses for the respondents were varied. However, the mean close to the average suggested that credit worthiness of borrowers fairly was carefully evaluated. In the interviews, the respondents indicated that the bank largely tried to establish the credit worthiness of the clients before they issued them loans. It was revealed that credit officers visited property pledged as security and looked at the businesses of borrowers and their audited accounts. One respondent stated, "The norm is that before a loan offer is made, a credit officer has to first assess the security pledged and even evaluate income flow of the borrower." Another respondent stated, "In the process of lending, the past loan repayment behaviour of the borrowers is assessed if the borrower is not a first borrower. Thereafter, disbursing of the money to the borrower is done." The results above suggest that the bank tried to assess the credit worthiness of borrowers and this was fairly done. The above finding that the bank tried to assess the credit worthiness of borrowers and fairly carried out implies that assessment of credit worthiness of borrowers was important. This finding agrees with Namyalo (2007) who suggested that credit assessment involved considering Capital/ Credit worthiness of the borrowers. This means that assessing the credit worthiness of the borrowers was significant while assessing credit assessment.

4.4.4 Establishing Value of Collateral

The results on whether the value of collateral was carefully established, were a mean = 3.48 close to median score, three, meaning that the respondents were undecided but the standard deviation = 1.23 indicated that there was variation in the responses of the respondents. The mean close to the median score suggested that the respondents considered valuing of collateral was fair. In the interviews, it was that established valuing of collateral was important. It was revealed that for small loans borrowers, the credit officers of the bank determined value of the security of the borrowers by visiting their properties. However, it was indicated that for large loan borrowers, the bank sent valuers to ascertain the value of security. The views above thus mean that the bank considered valuing of collateral as important. The above finding that the valuing of collateral was important is consistent with the findings of other scholars. For instance, Moti et al. (2012) found out that there was a significant relationship between collateral attached as security and loan performance. Thus, this means valuing of collateral was important in risk assessment.

4.4.5 Following Lending Rules

The results on whether the rules of the lending process were strictly followed were a mean = 3.32 close to median score, three, meaning that the respondents were undecided. However, the high standard deviation = 3.32 suggests that the responses were not normally distributed. The mean close to median that is the average suggested that rules of the lending process were fairly followed. In the interviews the respondents revealed that the bank followed the rules of the lending process. The respondents revealed that rules of the lending process considered included risk grading, insurance and valuing collateral. There was also credit scoring and following of the financial models such as assessing market risk, Value-at-Risk, validation, liquidity risk, leverage, systemic risk and financial regulation. Indeed, the respondents in following rules of lending, there was ensuring that strictly staff of the carried out investigation, prepared credit reports and considered factors of selection of the borrower to help ensured better loans performance. One respondent stated, "credit officers are required to carefully assess the security of the client, check the credibility of the guarantors through analysing the viability of their bank accounts before recommending a loan offer." The views above suggested that following the rules of the lending process strictly was considered important. The views above revealed that following the rules of the lending process strictly was important. This finding is similar to the finding by Kankiriho (2013) that credit risk assessment and performance of the loan portfolio were positively and significantly related. Accordingly, credit assessment included assessment procedures employed such as the strict adherence rules, credit risk assessment methodology, careful investigations, preparing credit reports. Therefore, following the rules of the lending process strictly was important.

4.4.6 Factors of Selection of the Borrower

The results on whether the factors of selection of the borrower were carefully followed were a mean = 3.23 close to the median score, three, meaning that the respondents were undecided, and with a high standard deviation = 1.06, it meant that there was variation in the results. The mean close to the median score, which is the average, meant that fairly, factors of selection of the borrower were carefully followed. In the interviews, the respondents indicated that there a number of factors of selection of the borrower. Accordingly, these included capital, character, ability, collateral, margins, purpose, and amount and repayment capacity. The finding above revealed that the bank recognised factors of selection of the borrower. The importance of factors of selection of the borrowers is considered by previous scholars. For instance, Kankiriho (2013) revealed that factors for selection of the borrower, and credit grading improved the performance of banks loan portfolio. Accordingly, considering factors for selection of the borrower helped the bank to determine the amount to lend to each individual, at what interest rate and whether to grant the loan or deny. Therefore, considering factors for selection of the borrower was significant.

4.4.7 Assessment of Financial Characters of Borrowers

The results on whether financial characters of borrowers were carefully assessed, the results were a mean = 3.54 close to four, which meant that the respondents agreed. However, the high standard deviation = 1.20 indicated that the responses of the respondents were varied. Nevertheless, the mean above the average suggested that there was careful assessment of financial characters of borrowers. This means that the bank considered careful assessment of financial characters of borrowers important. This finding concurs with Kankiriho (2013) who stated that credit risk assessment considered character of the borrowers to determine the amount to lend to each individual, at what interest rate and whether to grant the loan or deny. Moti et al. (2012) stated, found out a significant positive relationship between establishing the character of the borrower and loan repayment.

4.4.8 Assessment of Repayment of Borrowers

The results on whether the history of repayment of borrowers being carefully assessed were a mean = 3.21 close to the median score, three, meaning that the respondents were undecided but the high standard deviation = 1.35 suggested that there was variation in the distribution of the results. The mean just above the average suggested in credit assessment, fairly, the history of repayment of borrowers was carefully assessed. In the interviews, the respondents indicated that the history of repayment of borrowers was carefully assessed. One respondent stated, "The bank normally prefers to offer money easily to those who have a history of good loan repayment." Another respondent stated, "Clients with a history of good repayment even have the opportunity of borrowing at a lower interest rate." The results above mean that the bank considered the history of the respondent while carrying out credit assessment. This finding concurs with Moti et al. (2012) who stated there was a significant positive relationship between establishing the character of the borrower and loan repayment. This means that in carrying out credit assessment it was important to assess the character of borrowers.

4.4.9 Assessment of Cash Flow Statements of Borrowers

The results on whether the bank carefully assessed cash flow statements of borrowers were a mean = 3.00 equal to the median score, three, meaning that the respondents were undecided, and the high standard deviation = 1.30 suggested that there was variation in the distribution of the results. The mean close to the median score meant that the bank fairly carefully assessed cash flow statements of borrowers. This means that fairly, the bank considered careful assessment of cash flow statements of borrowers. The importance of cash flow statements of borrowers is also considered by other scholars. Moti et al. (2012) found out that there was a relationship between establishing the cash flow statements of the business and loan repayment. This means that establishing the cash flow statements of the business is important in credit risk assessment.

4.4.10 Credit Grading System

The results on the credit grading system of bank while assessing borrowers, were a mean = 3.54 close to four which indicated that the respondents agreed although the high standard deviation = 1.27 suggested variation in the responses. The high mean suggested the credit grading system of bank while assessing borrowers if followed. In the interviews the respondents revealed that credit grading of the bank was the basis on which granting of loans was based. One respondent stated, "Loans are offered after a client has been scored on the credit grading of the bank. When a client scores highly, it is deduced that the risks of lending to such a customer are low." It was also revealed that customers with low scores attracted higher interest rates while those who scored highly got offers at lower interest rates because of reduced credit risk" The above results suggest that the credit grading system of bank while assessing borrowers was followed. This means that the bank recognised the importance of credit grading system of bank while assessing borrowers. This finding is consistent to the findings made by other scholars. For instance, Moti et al. (2012) revealed a significant relationship between credit rating and loan performance. This meant that credit rating or credit grading affected loan performance.

4.5 Objective Two: To Find out the Relationship between Monitoring Activities and Loans Performance of Barclays Bank Uganda.

To establish the relationship between monitoring activities and loans performance, a number of items investigating monitoring activities were put to the respondents. The items studied included borrowers being effectively monitored, there being regular audits and checking of books of accounts of borrowers are carried out and customers being followed to ensure that loans money were used strictly for the intended purposes. The items also included there being regular checking of performance of the accounts of borrowers, borrowers' compliance with covenants being monitored and the bank ensuring the value of collateral was updated periodically to account for changes in market conditions. The above items were scaled using the five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree. Basing on the five-point Likert scale that was used, the median score of three was considered undecided (1+2+3+4+5 =15/5 = 3) while the mean above the median score indicated that the respondents agreed and the mean below median score indicated that the respondents disagreed. For each of the above items measuring monitoring activities, descriptive statistics that included means and standard are presented. The results on the items are given in Table 4.4.

Table 4. 4: Descriptive Statistics on Monitoring Activities

Monitoring Activities	Number	Mean	Std Dev
Borrowers are effectively monitored	92	3.27	1.25
Regular audits and checking of books of accounts of borrowers are carried out	92	2.74	1.50
Customers are followed to ensure that loans money is used strictly for the intended purposes	92	2.90	1.40
There is regular checking of performance of the accounts of borrowers	92	3.45	1.42
Borrowers' compliance with covenants is monitored	92	3.82	0.98
The bank ensures the value of collateral is updated periodically to account for changes in market conditions	92	2.55	1.31

Source: Primary data (2016)

4.5.1 Borrowers Effectively Monitored

The results in Table 4.4 regarding on whether borrowers were effectively monitored, were a mean = 3.27 close to the median, three, which on the five-point Likert scale (from a minimum of 1 for the worst case scenario strongly disagree to a maximum of 5, which is the best case scenario strongly agree) used to measure the responses meant that the respondents were undecided. However, the high standard deviation = 1.25 indicated that there was variation in the responses. The mean close to the average indicated that the respondents agreed that borrowers were effectively monitored. In the open responses of the questionnaire, one respondent stated, "The process of loan monitoring is very strict in the bank with repercussions on failure to follow up on borrowers." Another respondent stated, "Loans are monitored on daily basis to ensure compliance with the offer letter." While another respondent stated, "The loan monitoring activities of the bank were satisfactory and guided by the credit policy." It was indicated that the credit policy involved loans being approved to borrowers living within reasonable distance from the branch to allow regular visits and monitoring by the loan officers, small loans being charged a fixed rate of interest and a monthly monitoring fee for the entire loan period and all outstanding loans in the portfolio being closely monitored with the aid of the computer system. The respondents also revealed that reports generated by the system on a daily, weekly, and monthly basis has to be used by the branch management and Head office for monitoring and control of the arrears rate, and general quality of the lending business. Further it was indicated that the branch Loan Committee had to recovery meetings at least twice a month to review all loans in arrears on each loan officer's portfolio with the details for each meeting being recorded by the Credit Administrator and filed for reference in subsequent meetings. The results above indicate that there was a system for effectively monitoring borrowers. This means that effective monitoring of borrowers was an important activity of the bank. This finding concurs with previous scholars. Moti et al. (2012) revealed that monitoring systems were an effective aspect of loan collection policies. Accordingly, when a stringent monitoring policy was adopted, it positively impacted loan performance.

4.5.2 Regular Audits and Checking of Books of Accounts of Borrowers

The results on whether there were regular audits and checking of books of accounts of borrowers being carried out were a mean = 2.74 just below the median score three suggesting that the respondents were undecided. The high standard high standard deviation = 1.50 meant that the results were not normally distributed. However, the mean just below the average meant that regular audits and checking of books of accounts of borrowers were to a lesser extent carried out. In the interviews, the respondents indicated that largely there was lack of regular audits and checking of books of accounts of borrowers. However, it was revealed that audits happened when the clients started to fail to deposit the monthly loan instalments. The above results mean that the bank did not give due diligence to carrying out regular audits and checking of books of accounts of borrowers. This finding was consistent with the findings made other scholars. For instance, Deininger and Liu (2009) revealed that regular audits and checking of books of accounts at meetings increased full repayment probabilities. This means that by that by carrying regular audits and checking of books of accounts of borrowers, loan repayment can be enhanced.

4.5.3 Ensuring appropriate use of Money

The results on whether customers were followed to ensure that loans money was used strictly for the intended purposes the mean = 2.90 was slightly below the median score, three, indicating that the respondents were undecided and a larger standard deviation = 1.40 indicating high dispersion in the distribution of the results. These results meant that to a lesser extent customers were followed to ensure that loans money was used strictly for the intended purposes. However, this finding underscores the findings by previous scholars. For instance, Ayogyam et al. (2014) found out that monitoring of borrowers to make sure that they used the loans for the intended purpose helped in ensuring that borrowers paid back their loans. This means that it is important that banks monitor of borrowers to make sure that they used the loans for the intended purpose.

As to whether there was regular checking of performance of the accounts of borrowers, cumulatively the larger percentage (65.2%) of the respondents agreed with only 34.7% disagreeing. The mean = 3.45 was close to the median score, three, meaning that the respondents were undecided, but the high standard deviation = 1.42 suggested that there was variation in the responses. The mean close to the median score meant that fairly, there was regular checking of performance of the accounts of borrowers. This means that the bank recognized the importance of regular checking of performance of the accounts of borrowers. This finding agrees with Mester et al. (2001) who revealed that checking account information helps the bank to monitor commercial borrowers and this influenced loan repayment. This means that it is important there is regular checking of performance of the accounts of borrowers.

4.5.4 Ensuring Compliance with Covenants

The results on whether borrowers' compliance with covenants was being monitored were a mean = 3.82 close to four, indicated that the respondents agreed. The low standard deviation = 0.98 suggested that the responses of the respondents were normally distributed. The high mean suggested there borrowers' compliance with covenants was monitored. This means that in monitoring activities, monitoring borrowers' compliance with covenants was important. This finding concurs with Odufuye (2007) who reported effective loan monitoring in terms of monitoring compliance with established covenants, assessing where applicable, collateral coverage, relative to creditor's current condition, identifying contractual payment delinquencies and classifying potential credits on a timely basis was important. Bichanga and Aseyo (2013) they found out that loan repayment default were as result of non supervision/ monitoring of borrowers.

4.5.6 Updating Changes in the Value Collateral

The results on whether value of collateral was updated periodically to account for changes in market conditions were a mean = 2.55 slightly below the median score, three, suggesting that the respondents were undecided and the high standard deviation = 1.31 indicated dispersion in the distribution of the results. These results meant that to a lesser extent, the value of collateral was updated periodically to account for changes in market conditions. In the interviews, the respondents revealed that whereas it was important to update value of collateral periodically to account for changes in market conditions, this was not regularly carried out except if the borrower showed indications of default. This finding means that the bank did not give prominence to the importance to ensuring that the value of collateral was updated periodically to account for changes in market conditions. This is contrary to the views of Mlabwa (2004) who explained that that the value of collateral should be updated periodically to account for changes in market conditions. For example, where the collateral is property or shares, an institution should undertake more frequent valuations in adverse market conditions. If the facility is backed by an inventory or goods purportedly on the obligor's premises, appropriate inspections should be conducted to verify the existence and valuation of the collateral.

4.6 Objective Three: To Find out the Relationship between Control Activities and Loans Performance of Barclays Bank Uganda.

To find out the relationship between control activities and loans performance, a number of items investigating control activities were put to the respondents. The items studied included loans being disbursed only after approval by the manager and loans being disbursed after thorough verification of the borrowers. The items also included the bank having segregated of duties in loans disbursement, managers acting prudently in the offering of loans and the loan management process being transparent. The items further included high integrity being observed in the way the managers handled loan processes and the board and senior management being involved in the management of loans. The above items were scaled using the five-point Likert scale where code 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree. Basing on the five-point Likert scale that was used, the median score of three was considered undecided (1+2+3+4+5 =15/5 = 3) while the mean above the median score indicated that the respondents agreed and the mean below median score indicated that the respondents disagreed. For each of the above items measuring control activities, descriptive statistics that include means and standard deviations are presented. The results on the items are given in Table 4.5.

Table 4. 5: Frequencies, Percentages, Means and Standard Deviations of Control Activities

Control Activities	**Number**	**Mean**	**Std Dev**
Loans are disbursed only after approval by the manager	92	4.11	0.31
Loans are disbursed after thorough verification	92	4.17	0.41
The loan disbursement process is highly supervised	92	4.46	0.50
The bank has segregated duties in loans disbursement	92	4.33	0.47
Managers act prudently in the offering of loans	92	3.46	0.75
The loan management process is transparent	92	4.07	0.74
High integrity is observed in the way they managers handle loan processes	92	4.11	0.56
The board and senior management are involved in the management of loans	92	3.86	0.53

Source: Primary data (2016)

4.6.1 Approval by the Manager

The results in Table 4.5 on whether loans were disbursed only after approval by the manager, the results were a mean = 4.11 equal to code 4 which on the five-point Likert scale (from a minimum of 1 for the worst case scenario strongly disagree to a maximum of 5, which is the best case scenario strongly agree) used corresponded with agree. The low standard deviation = 0.31 meant that the results were not normally distributed. In relation to the above, as to whether loans were disbursed after thorough verification of the borrowers, nearly all the respondents agreed with 80.4% agreeing, 18.5% strongly agreeing and only 1.1% being undecided. The mean = 4.17 was equal to four that corresponded with agree on the scale used and the low standard deviation = 0.41 indicated normal distribution of the results. The results implied that loans were disbursed after thorough verification of the borrowers.

In the interviews, the respondents revealed that no single loan could be disbursed without the approval of a manager or thorough verification of the borrower. The respondents indicated that managers had the mandate of guiding whether the loan had limited risks basing on the recommendations of credit officers on the file of the borrower. The results above mean that loans were disbursed only after approval and verification by the manager. This means disbursing of loans with the approval is an important control activity. This finding concurs with views of other scholars. Ratcliffe and Landes (2009) states that control activities are the policies and procedures that help ensure management directives are carried out. Accordingly, control activities include a range of activities as diverse as approvals, authorisations and verifications. This means that loans approvals involve approval.

4.6.2 Loan Disbursement Process Supervision

The results on whether the loan disbursement process was highly supervised by management staff were mean = 4.46 above close to four which corresponded with agree, and the low standard deviation = 0.50 indicated normal distribution. The high mean that the loan disbursement process is highly supervised by management staff. This means that the bank considered supervision of loan disbursement process by management very important. This finding supports Chiezey and Agbo (2013) who established that if banks strengthen their supervisory role, they are able to check and curtail the incidence of fraud and fraudulent activities. This means that supervisory of loans disbursement controls fraudulent loans enhancing loans performance.

4.6.3 Bank Segregating Duties in Loans Disbursement

The results on bank segregating duties in loans disbursement were a mean = 4.33 close to four, which on the scale used indicated that the respondents agreed. The standard deviation = 0.47 was small indicating that the results were normally distributed. Therefore, it was deduced that bank segregated duties in loans disbursement. In the interviews, the respondents revealed that duties of loan disbursement of loans were highly segregated to reduce some staff conniving with clients to issues them fraudulent loans that would cause loses to the bank. It was indicated that loan disbursement involved the credit officer initiating the process, the credit committee assessing the risks of the offer, the loans supervisor verifying the offer and finally the manager who authorised or rejected disbursement of the offer. The above results indicate that the bank segregated duties in loans disbursement. The importance of segregating duties is also considered important by other studies. Gyebi and Quain (2013) indicate that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. Further Tunji (2013) indicates that four functional responsibilities (authorisation, recording, custody and reconciliation) should be performed by different departments. Duties should be divided so that no one person can control two or more of the four independent responsibilities, to check abuses that can derail an organisation.

4.6.4 Managers Acting Prudently in the Offering of Loans

The results on whether managers acted prudently in the offering of loans were a mean = 3.46 close to the median score three which suggested undecided. The low standard deviation = 0.75 which indicated normal distribution of the results. The mean above the average mean that largely, managers acted prudently in the offering of loans. The importance of managers acting prudently in the offering of loans is recognised by other scholars. Tunji (2013) states that accounting seeks to establish a workable bookkeeping and accounting system that ensure that all transactions are recorded and accurately processed in the appropriate books of account. Thus, bank managers should be prudent, in the way they handle the affairs of their banks.

4.6.5 Loan Management Process being Transparent

The results on whether the loan management process was transparent were a mean = 4.07 close to code 4 which corresponded with agree and the low standard deviation = 0.74 suggested normal distribution of the results. With the high mean, the results suggested that the respondents agreed that the loan management process was transparent. In the interviews, the respondents indicated that the process was transparent. One respondent stated, "*The process is transparent because in the credit management committee issues concerning customers are discussed broadly and openly*." Another respondent stated, "*The loan process is handled by different people which makes the process more open and transparent.*" Also another respondent said, "*The loan management process is very transparent because everything is done in the open with many people involved*." The results above mean that the loan management process was transparent. The importance of the transparency is recognised by other scholars. Tunji (2013) reports that bank managers should be transparent in the way they handle the affairs of their banks. This means that transparency is important in the operations of banks and enhances performance banks.

4.6.6 Integrity in Handling of Loans

The results on whether high integrity was observed in the way they managers handled loan processes were a mean = 4.11 equal to four that corresponded with agree on the scale used and the low standard deviation = 0.56 indicated normal distribution of the results. The results suggested that high integrity being observed in the way they managers handled loan processes. This means that high integrity being observed in the way they managers handle loan processes is important. This finding agrees with the views of Tunji (2013) who indicated t that bank managers should act with high integrity in the way they handle the affairs of their banks. This means that integrity is important in the operations of banks and enhances performance banks.

4.6.7 Board and Senior Management Involvement in the Management of Loans

The results on whether board and senior management were involved in the management of loans were a mean 3.86 close to four, and a low standard deviation = 0.53 which indicated normal distribution of the results suggested that board and senior management were involved in the management of loans. This means that the bank recognised the importance of the board and senior management being involved in the management of loans. This finding agrees with the findings of other scholars. Alexander (2004) indicates that the board and senior management of financial institutions are responsible for promoting high ethical and integrity standards and for establishing a culture within the organisation that emphasises and demonstrates to all levels of personnel the importance of internal controls.

4.7 Correlation Analysis between Loan Performance and Internal Control System

At preliminary level, to establish whether there was a relationship between loan performance and internal control system, correlation analysis was carried out. The items considered were risk assessment, monitoring activities and control activities. The results were given as in Table 4.6.

Table 4. 6: Correlation Matrix of between Loan Performance and Internal Control System

	Loan Performance	Risk Assessment	Monitoring Activities	Control Activities
Loan Performance	1	0.609**	0.508**	0.767**
Risk Assessment		1	0.623**	0.455**
Monitoring Activities			1	0.759**
Control Activities				1

**. Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data (2016)

The results in Table 4.6 suggest that there is a positive significant relationship between loan performance and internal control system. For all the items, the critical values were significant at $p < 0.01$ level of significance. This indicated the acceptance of the research hypotheses, namely; risk assessment, monitoring activities and control activities relate to loan performance. The results on risk assessment and loan performance were $r = 0.609$, $p < 0.01$, the results on monitoring activities and loan performance were = 0.508, $p < 0.01$ and the results on control activities and loan performance were $r = 0.767$, $p < 0.01$. The preliminary results reveal that control activities and correlated with loan performance most significantly followed by risk assessment and then monitoring activities.

4.8 Regression Model for Loan Performance using Internal Control Systems

At the confirmatory level, to find out whether loan performance was predicted by internal control systems the dependent variable namely; loan performance was regressed on internal control system the independent variable. The internal control systems were risk assessment, monitoring activities and control activities. The results were as in Table 4.7.

Table 4. 7: Regression of Loan Performance on Internal Control Systems

Internal Control Systems	Unstandardised β	Standardised β	t	Sig. p
Risk Assessment	0.249	0.237	6.425	0.008
Monitoring Activities	0.165	0.153	2.979	0.010
Control Activities	0.991	0.898	11.195	0.005

Adjusted $R^2 = 0.724$
F = 92.901, p = 0.000

Dependent Variable: Loan Performance

Source: Primary data (2016)

The results in Table 4.7 show that, internal control systems namely were risk assessment, monitoring activities and control activities explained 72.4% of the variation in loans performance (adjusted $R^2 = 0.724$). This means that 27.6% was accounted for by extraneous variables. The regression model was good/ significant ($F = 92.901$, $p = 0.000 < 0.05$). All the three internal control systems that were risk assessment ($\beta = 0.237$, $p = 0.008$), monitoring activities ($\beta = 0.153$, $p = 0.010$) and control activities ($\beta = 0.898$, $p = 0.005$) significantly predicted loan performance. The magnitudes of the respective betas suggest that control activities most significantly loan performance followed by monitoring activities, then risk assessment.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings, conclusions obtained from the findings and the recommendations on analysis and interpretation of the findings on internal control system and loan performance in the banking sector.

5.1 Summary of the findings

Interpretation and analysis of data collected provided the following findings that are summarised here under;

5.1.1Objective One: To Establish the Relationship between Risk Assessment and Loans Performance of Barclays Bank Uganda.

The study established a significant positive relationship between risk assessment and loans performance. The results revealed that risk assessment predicted loans performance if there is effective assessment of the risk of borrowers, setting of appropriate interest rates, carefully evaluating credit worthiness of borrowers, determining the value of collateral and strictly following rules of the lending process. Risk assessment also predicted loans performance if there is careful considering of factors of selection of the borrower, careful assessment of the financial character of borrowers and the history of repayment of borrowers is carefully assessed.

Further, risk assessment predicted loans performance if the bank assessed cash flow statements of borrowers and the credit grading system of bank if followed while assessing borrowers.

5.1.2 Objective Two: To Find out the Relationship between Monitoring Activities and Loans Performance of Barclays Bank Uganda.

The study found out that there was a significant positive relationship between monitoring activities and loans performance. The results revealed that monitoring activities predicted loans performance if borrowers are effectively monitored and there is regular checking of performance of the accounts of borrowers. Also monitoring activities predicted loans performance is customers are followed to ensure that loans money is used strictly for the intended purposes and borrowers' compliance with covenants is monitored.

5.1.3 Objective Three: To Find out the relationship between Control Activities and Loans Performance of Barclays Bank Uganda.

The study found out that there was a significant positive relationship between control activities and loans performance. The results revealed that control activities predicted loans performance if loans are disbursed only after approval by the manager, disbursed after thorough verification of the borrowers and duties are segregated in loans disbursement. Also control activities predicted loans performance if managers acted prudently, transparently, with integrity in the offering of loans and the board and senior management are involved in the management of loans.

5.2 Conclusions

i. Regarding hypothesis one on the relationship between risk assessment and loan performance, risk assessment influences loans performance as a result of effective assessment of the risk of borrowers, setting of appropriate interest rates, carefully evaluating credit worthiness of borrowers, determining the value of collateral enhances. Risk assessment also influences loans performance as a result of strict following rules of the lending process and careful considering of factors of selection of the borrower. Risk assessment further influences loan performance when the financial character, the history of repayment, cash flow statements of borrowers are carefully assessed and the credit grading system of bank while assessing borrowers is followed.

ii. With respect to the second hypothesis on monitoring activities and loans performance, monitoring activities influences loans performance when borrowers are effectively monitored and there is regular checking of performance of the accounts of borrowers. Monitoring activities also influence loans performance when customers are followed to ensure that loans money is used strictly for the intended purposes and borrowers' compliance with covenants is monitored.

iii. As regards the third hypothesis on relationship between control activities and loans performance, control activities influence loans performance when loans are disbursed only after approval by the manager, disbursed after thorough verification of the borrowers and duties are segregated in loans disbursement. Also control activities influence loans performance if managers act prudently, transparently, with integrity in the offering of loans and the board and senior management are involved in the management of loans.

5.3 Recommendations

i. In relation to risk assessment, banks should carry out effective risk assessment. This should be done through setting of appropriate interest rates, carefully evaluating credit worthiness of borrowers, determining the value of collateral enhances. Effective risk assessment should also be carried out through strict following rules of lending process and careful considering of factors of selection of the borrower. Effective risk assessment should also carefully assess the financial character, the history of repayment, cash flow statements of borrowers and follow credit grading system of bank while assessing borrowers.

ii. With respect to control activities, banks should implement monitoring activities effectively. This should be through regular checking of performance of the accounts of borrowers, follow customers to ensure that loans money is used strictly for the intended purposes and monitoring borrowers' compliance with covenants.

iii. Concerning control activities, banks effectively implement control activities. This should be through disbursing loans only after approval by the manager, verification of the borrowers and segregating duties in loans disbursement. Also control activities should be effectively implemented through managers acting prudently, transparently, with integrity in the offering of loans and the board and senior management being involved in the management of loans.

5.4 Suggestions for Further Research

The findings of the study on some items of the study conflicted with expectations as per the hypotheses regarding the significance of internal control system and loan performance. For instance, the study found out that control activities namely, regular audits and checking of books of accounts of borrowers are carried out; following customers to ensure that loans money is used strictly for the intended purposes; and ensuring that the value of collateral is updated periodically to account for changes in market conditions were carried out to a lesser extent. These conflicting findings call for further research why they were not being emphasised by banks.

5.5 Study Implications

The findings of this study have practical significance to banks, government agencies and non-government organisations involved in providing of services to people. Specifically, the findings that risk assessment, monitoring activities and control activities were significant positive predictors of loans performance imply that, in carrying out their activities, banks, government agencies and non-government organisations should carry out risk assessment and implement effective monitoring and control activities.

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APPENDICES

Appendix A

Table for Determining Sample Size from a Given Population

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	102	1800	317
45	40	290	105	1900	320
50	44	300	109	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	198	3000	341
80	66	420	201	2500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note: *N* = population size
S = sample size

Source: Krejcie and Morgan (1970).

APPENDICES

APPENDIX B: SELF ADMINISTERED QUESTIONNAIRE FOR BANK STAFF

Dear respondent,

I am student carrying out a study on "Internal Control Systems and Loan Performance in the Banking sector: The case of Barclays Bank Uganda Kampala Main Branch" You have been selected to participate in this study by providing us with relevant information based on your experience an employee of the bank. Please answer diligently and the information sought is required only for academic purposes. Participation is entirely out of your free will and necessary for the success of this work. Information provided will be treated with maximum confidentiality.

Faithfully

....
Barbara Atuhaire

Section A: Background Information (Please Tick in the Appropriate Cell)

A1 My gender

Male	Female

A2 My age group:

Below 30 years	30-40 years	41-50 years	Above 50 years

A3 My level of Education

Diploma	Bachelors Degree.	Masters Degree

A4 Position in the bank

Manager	Supervisor	Credit of Officer

A5 How long have you been working in the bank

Less than 5 years	6-10 years	10 and above years

Section B: Internal Control Systems (IV)

This section presents items on internal control systems. The section divided into three parts, namely; risk assessment, monitoring activities and control activities. Kindly you are requested to indicate your feelings about certification of products using the scale where, 1 = SD (Strongly Disagree), 2 = Disagree (D), 3 = Undecided (U), 4 = Agree (A) and 5 =Strongly Agree (SA)**.**

		SD	**D**	**U**	**A**	**SA**
B1	**Risk Assessment**	**1**	**2**	**3**	**4**	**5**
B1.1	Borrowers risks are effectively assessed					
B1.2	The appropriateness of interest rates is assessed					
B1.3	Credit worthiness of borrowers is carefully evaluated					
B1.4	The value of collateral is carefully established					
B1.5	Rules of the lending process are strictly followed					

B1.6	Factors of selection of the borrower are carefully followed					
B1.7	The financial character of borrowers are carefully assessed					
B1.8	History of repayment of borrowers is carefully assessed					
B1.9	Cash flow statements of borrowers is carefully assessed					
B1.10	The credit grading system of bank while assessing borrowers if followed					

B1.11 Briefly, is your analysis of the credit risk assessment of the bank.

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B2	**Monitoring Activities**	**SD** **1**	**D** **2**	**U** **3**	**A** **4**	**SA** **5**
B2.1	Borrowers are effectively monitored					
B2.2	Regular audits and checking of books of accounts of borrowers are carried out					
B2.3	Customers are followed to ensure that loans money is used strictly for the intended purposes					
B2.4	There is regular checking of performance of the accounts of borrowers					
B2.5	Borrowers' compliance with covenants is monitored					
B2.6	The bank ensures the value of collateral is updated periodically to account for changes in market conditions					

B2.7 In summary, what is your assessment of the loan monitoring activities of the bank?

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B3	**Control Activities**	**SD**	**D**	**U**	**A**	**SA**
		1	**2**	**3**	**4**	**5**
B3.1	Loans are disbursed only after approval by the manager					
B3.2	Loans are disbursed after thorough verification of the borrowers					
B3.3	The loan disbursement process is highly supervised by management staff					
B3.4	The bank has segregated of duties in loans disbursement					
B3.5	Managers act prudently in the offering of loans					
B3.6	The loan management process is transparent					
B3.7	High integrity is observed in the way they managers handle loan processes					
B3.8	The board and senior management are involved in the management of loans					

B3.12 In summary, what is your opinion on the control activities of the bank?

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Section C: Loans Performance (DV)

This section presents items on loans performance. You are kindly requested to indicate your feelings about value for money using the scale where, 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree**.**

C1	**Loans Performance**	**SD**	**D**	**U**	**A**	**SA**
		1	**2**	**3**	**4**	**5**
B1.1	The rate of loan recovery is high					
C1.2	There is prompt repayment					
C1.3	Repayment schedules are respected					
C1.4	There is orderly and full payment					
C1.5	Loan portfolio performance of the bank is good					
C1.6	There are fewer hurdles in the attaching of collateral					
C1.7	Fewer customers obtain loans fraudulently					
C1.8	The bank intervenes early to recover the deteriorating loans					
C1.9	Most customers are motivated to pay					
C1.10	Customers are conscious of their loan obligations					

C1.11 In summary, what is your opinion about attainment loan performance of the bank?

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APPENDIX C: INTERVIEW GUIDE FOR MANAGEMENT STAFF

Risk Assessment

1. How effective is risk credit risk assessment of borrowers?
2. How is assessment of appropriateness of interest rates carried out?
3. What is the criterion for establishing the value of collateral?
4. What factors are considered in the selection of the borrowers?
5. What is the credit grading system of the bank?

Monitoring Activities

6. How effectively are borrowers monitored?
7. How is the updating of collaterals value carried out?

Control Activities

8. How effective are control activities of the bank?
9. How is verification of borrowers carried out?
10. How are duties of credit officers segregated?
11. How ethical are credit managers of the bank?