KAMPALA INTERNATIONAL UNIVERSITY

SCHOOL OF BUSINESS AND MANAGEMENT

ACCOUNTING INFORMATION SYSTEMS AND FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN UGANDA: PRIDE MICROFINANCE LIMITED KAMPALA DISTRICT

BY

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A RESEARCH REPORT SUBMITTED AS AREQUIREMENT TO THE SCHOOL OF BUSINESS AND MANAGEMENT FOR THE A WARD OF THE DEGREEE OF BACHELOR OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY.

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APPROVAL

This research report has been approved by

MR. SUNDAY ARTHUR

Signature...

Supervisor

DATE ...... 13/07/2009.....................

DEDICATION

I dedicate this work to my parents; SABIITI YOSAMU and KEMPIHA LESTATUTE, brothers and sisters, friends and mentors, whose generous influence on my thinking and writing about this topic presents a rewarding challenge.

LIST OF ABBREVIATION / ACRONYMS

UGAP – Consultative Group to assist the poor.

USAID – United State Agency for International Development.

MFIS –Micro finance Institutions.

AIS – Accounting Information System.

KIU- Kampala international university

PMF- pride micro finance.

ROCE- Return on capital employed

MDI- micro deposit institution

BoU- Bank of Uganda

LTD- Limited

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ABSTRACT

The study explain the back ground to the statement of the problem bringing out how the accounting information systems is related to financial performance of microfinance institutions in Uganda. The study objectives examined the variables and how they are relate. Research questions were based on the objectives of the study. The scope of the study was about what makes the AIS and its effect on the financial performance in microfinance institutions. It also states significance of the study.

In chapter two is a review of theoretical underpinning and previous empirical studies as the impact of AIS on financial performance of MFIS.

In chapter three presents the methodology against which the study was to be conducted, it begins with the research design, population sample and sample size, sources of data, collection methods, data analysis and limitations of the study. The findings in chapter four reviews the research questions where answers were given to the the study basing on different opinions of authors and reports. Chapter five includes the researcher's conclusions and recommendations. However there exists some inadequacies that the researcher stated some areas for further research

CHAPTER ONE

INTRODUCTION

This study looked at the relationship between AIS and financial performance of MFIS in Uganda. This chapter includes; back ground, statement of the problem, purpose, Research questions, scope and significance of the study.

1.1. BACKGROUND TO THE STUDY

Pride micro finance is one of the micro finance institutions in Uganda which started operating in 1995. It still maintains the micro-loans component thus qualifying to be in Tier 2 of MFI ranking (AMFIU, 2007). However, due to intense competition in the banking industry, it had to open new branches in all the regions in the country, totaling to 25 branches to date. In the central Uganda, the bank's main branches are in Kampala district. The branches have however experienced a challenge of recovering the loans disbursed to the clients and this has also affected their performance in terms of expansion of services, quality of the loan portfolio and the relationship with the clients. The micro-loans improve the financial position and lifestyle of local community.

The institution faces the challenge of expansion due to increased competition from the traditionally big and efficient commercial banks and other micro finance institutions. It also faces a problem of the terrain of the area, which hinders free movement of loan officers to mobilize potential customers as well as recover loans disbursed because the means of transport used by loan officers is mostly motor cycles. Another challenge is associated with lack of mobilization by the Branch Manager since they are more based in the office to do paper work. Pride micro finance is also associated with a rigid culture which does not encourage giving back to the society and creating a conducive relationship with its customers.

Micro-finance means small-scale transactions of credit and savings. In Murdoch (1999), microfinance provides small short-term loans without collateral to households excluded by the formal financial sector in many developing countries. However, in pride micro finance, customers who do not have collaterals do not qualify to access credit facility. The main products

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of micro-finance institutions include, group loans, family loans, savings clubs, salary earners' loan, and guaranteed loans among others.

Indonesia, which has one of the largest financially self sustaining micro finance industry in the world , micro finance initiatives has played a key role in the country's declining poverty rate from 40% of the population in the mid 1970s to 11% in 1996 (Marguerite,2002). The Ugandan micro-finance industry is structured into those Microfinance institutions that are regulated by the Central Bank, the Micro-finance Deposit Taking Institutions (MDIs) and the unregulated, Micro-finance Institutions (MFIs). Among the regulated ones are FINCA, Faulu, Commercial Micro Finance LTD (CML), Uganda Microfinance Limited (UML) and PRIDE Uganda. Noticeable with the entire Micro-finance Industry (regulated or otherwise) is their donor dependence, a phenomenon that presents a danger with respect to long term survival, should the funding be stopped at some time into the future.

As a remedy, the Ugandan Central Bank, Bank of Uganda (BOU) decided to regularize the Micro-finance operations, under which those regulated, the MDIs have substantially reduced their reliance on grants and loans by mobilizing their own resources domestically essentially through accepting deposits from the banking public and private equity inflows.

While the social goals of reaching the poorest and poverty alleviation strategies are valid, accounting information systems has emerged as one of the core management in Uganda's micro-finance sector. The shrinking resource base of donor funds to support the increasing demand for grants and soft loans implies that MDIs will eventually have to support themselves.

1.2 STATEMENT OF THE PROBLEM

The accounting information systems are the basic component of business management, out put like financial reports are helpful in making decision, reports of micro finance enterprises. However micro finance institutions are still prone to problems of the management because they imagine that they have necessary facts to run their institutions as they think (M.A peters 2002). This has been evidenced by those institutions having poor accounting information systems. If this mentality by micro finance management is not checked, more invalid financial decisions will

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continue to be made and external funding from donors and government will be limited. Therefore this will result into problems in their performance and progress.

1.3 THE PURPOSE OF THE STUDY

The purpose of this study was to examine the effect of accounting information systems and financial performance of micro finance institutions.

1.4 OBJECTIVES OF THE STUDY

1) To examine the nature of accounting information systems in micro finance institutions.
2) To examine the state of micro finance institutions financial performance.
3) To find out the relationship between accounting information systems and financial performance of micro finance institutions.

1.5 RESEARCH QUESTIONS

1) What is the nature of accounting information systems in micro finance institutions?
2) What is the state of micro finance institutions financial performance?
3) What is the relationship that exists between accounting information systems and financial performance of MFIS?

1.6 SCOPE OF THE STUDY

The study was limited to issues relating to micro finance institutions especially in Kampala district. In addition, the study embarked on the issues of accounting information systems in micro finance institutions and their state of financial performance.

1.7 SIGNIFICANCE OF THE STUDY

1) The study helped MFIS to know about the nature of AIS and its effects on the financial performance.
2) The study helped to avail data to many students and researchers undertaking studies in the related field.

3) The study helped the researcher to pass the course as required by the university examination board.

1.8 CONCEPTUAL FRAMEWORK

AIS	Variables
-Input	-Financial sectors policies
-Storage	-Financial sector regulations
-Transaction	-Interest rate restrictions
-Processing	-Economic stability
-Collecting	-Time frame
-Reporting	-Reporting standards

Financial performance

-Productivity

-Liquidity

-profitability
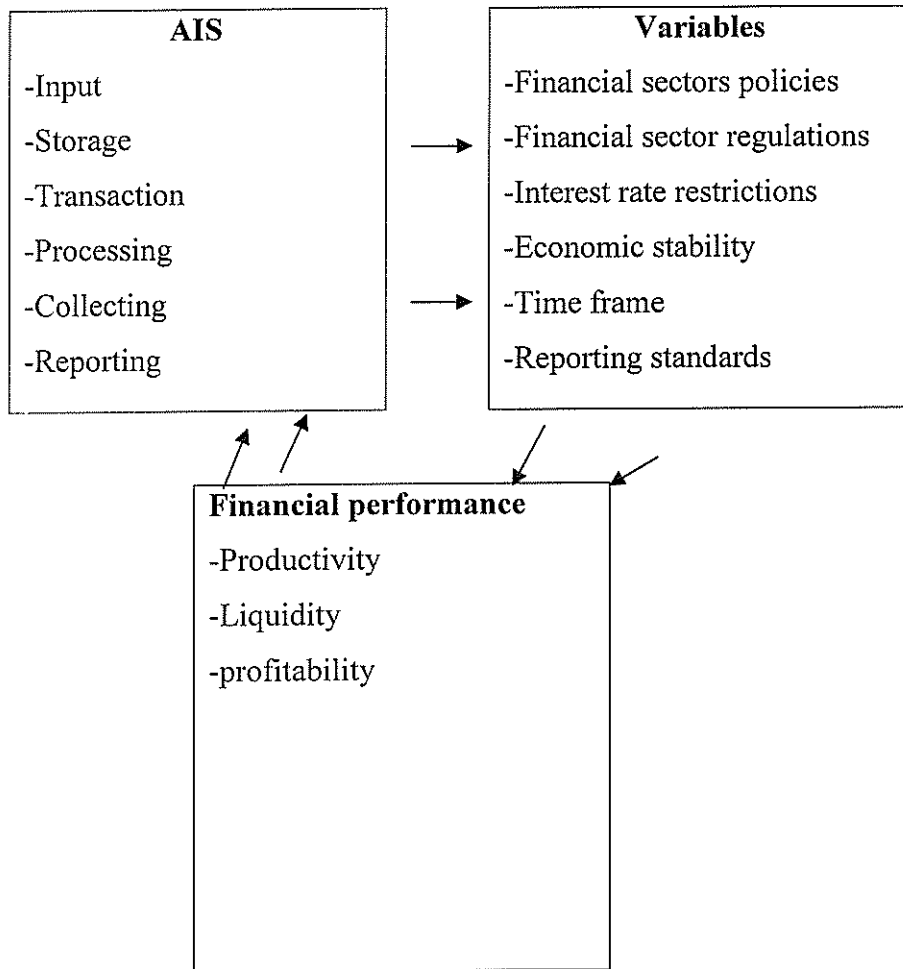
CHAPTER TWO

LITERATURE REVIEW

This chapter covers the process involved in generation of financial accounting information prior to its transformation into accounting data and its effects on financial performance of MFIS in Uganda.

2.1 OVER VIEW OF ACCOUNTING

Accounting is an art and science of recording and classifying financial transactions in the books, summarizing and communicating financial information through production of financial statements or reports and interpretation for easy decision making (Frank wood, 1986).

Accounting as a language of business in the art of interpreting, measuring and describing economic activity. People in the business world – owners managers bankers stock brokers investors- all use accounting terms and concepts to describe resources and activities of every business, large and small (Walter B. meigs ,1962).

2.2 INFORMATION SYSTEMS

it is an organized combination of people, hardware, software, Communication networks and date resource that collects, transforms and disseminates information in an organization (Obrien 1936). It is a combination of people, facilities, technology, media, procedures and controls that are intended to maintain essential channels of communication, process certain routine type of transaction, alert management and other significant internal and external events that provide a basis for intelligent decision making (Steven 2004)

2.3 ACCOUNTING INFORMATION SYSTEMS

Accounting as an information system is process of identifying, measuring and communicating the economic information of an organization to its user who need the information for decision making (PC Tuisian, 1963).

2.4 FEATURES OF ACCOUNTING INFORMATION SYSTEMS

The AIS has been characterized by it being financially oriented, most of the data processing sources are recurring and the data records are historical in nature. It has been closely associated in the past with transaction processing cycle, although usually financial in nature. Most transactions also generate statistical data which is of management interest (George in 1987) Douglas 1980 stated that the accounting information system routinely process monetary as well as internal transaction. Economic events of a business that may be processed by AIS are; transfer of assets from inventory to production process depreciation calculations and adjustments to customers invoice and other documents. Accounting information also processes transactions that are directly reflected in the ledgers balances that are the basic statements.

Warren and Fees (1994) states that AIS is characterized by its output producing financial reports that are used to make financial decisions.

2.5 ACCOUNTING INFORMATION SYSTEMS APPROACH

Guarantier and underdown, 1998 state that in the design of accounting information system, a manager must first restart the objectives of the system such as efficiency implements- increased output and cost savings, head count reduction, improved management information and decision making more motivated and counted workforce. They also say that information system should capture the organization knowledge with the contribution with the strategic goals of the organization. In the agreement (Kireri 2001) agues that AI S should perform.

2.6 THE ACCOUNTING INFORMATION SYSTEMS PROCESS

The process starts with the documents and ends with financial statements. It is often called double entry system. The accounting system takes a business beyond record keeping and provides a vital financial indicator. (Nash and Henry, 1993) explained by AIS as one of that is stages as started below;

The first stage is explained as being the data collection: these include business transaction and operation data. The second sage is data organization, method of starting data by data transaction type. He defined the third stage as accounting data base; data entry into spread sheets or accounting software programme will form the basis of the accounting information.

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Stephen, (2004)argued that AIS process is into accountability task that are four the first task being initiating transactions for example automatically making a purpose order it stock levels are below specific amount.

The second task being recording transactions for example a purpose is in put to the purchase ledger. The third task was defined as the processing data and his final task being responding to inquiries.

The American accounting association summarized AIS process in to three stages.

The collection or the in put stage.

This concerned with making and receiving source documents like sale, invoices, pay roll and tire cards.

2.7 FACTORS THAT DETERMINE NATURE OF ACCOUNTING INFORMATION SYSTEMS

AIS must fit a particular organization in order to meet the organizational goals (Nash, 1993).some of the factors he stated include:

The nature and the purpose of organization, the structured and functional characteristics, and the physical lay out of the organization, the products and services, the existing accounting system and the personnel who will operate the system.

2.8 ACCOUNTING INFORMATION SYSTEMS OF MICROFINANCE INSTITUTIONS

The system is fundamentary suite of components whose underlying purpose is to provide financial information business entity (Walter, etal, 1986).

It consists of methods, procedures and devices that enable the firm to keep track of its financial activities and summarize their in manner useful for decision making (Jennings, 1993).

In Uganda, almost every small microfinance firm still takes traditional view to accounting. Their accounting systems are manual in nature with their records being paper based. The accounting work is done by hand that is to say manually. This is common especially in small MFIS.

2.9 RELEVANCE OF ACCOUNTING INFORMATION SYSTEMS IN MICRO FINANCE INSTITUTIONS

Traditionally, state holders invest in MFIS with an aim of maximizing returns and serve the majority poor. This means there is need of effectively trade off between total receipts and payments or the microfinance.

MFIS go through series of vast transactions as their daily operations, data relating to sales return and payments may a lot such that with out AIS, then there will be decline in its financial performance. Thus AIS plays three basic roles:

Recording

Since many transactions occur in daily operations, systematic record must be made and there after processed.

Classification

The AIS ensures that huge volumes of data relating to business activity are classified into the related groups.

Summarizing. For management decision making AIS summaries the accounting data into better formats.

2.1.0 MICROFINANCE INSTITUTIONS

Microfinance, according to Otero (1999), is "the provision of financial services to the low income poor and very poor self employed people".

These financial services according to ledger wood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services.

According to schreiner and colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor house holds neglected by banks".

2.1.2 FINANCIAL PERFORMANCE

This looks at productivity, profitability liquidity potentials of business enterprise in terms of raising funds and allocation.

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Financial performance refers to the financial strength or weakness of firm. The management is normally interested in knowing financial strengths and weaknesses of the firm so that it is able to take a correct decision basing on its performance. In order to establish or assess the financial performance of affirm, financial analysis is carried out (Kakuru, 2005).

By definition, financial analysis is the process of identifying financial strengths and weaknesses of the firm by establishing relationship between items of balance sheet and income statement. Financial analysis is concerned with assessing the impact of financial decisions on the operating performance and financial position of the business

According to paddy (1995), establishing the financial performance of a business involves the analysis of changes in the financial position for the business.

2.1.3 PROFITABILITY

This involves establishing how much profit is being made in relation to amount invested to earn it or the size or working force or measure of size.

The most of the relevant ratios her is the return on capital employed (ROCE), which will compare pre-tax profits plus interest to assets employed. Other ratios include; gross profit margin, net profit margin and profit after tax among others (Nkundabanyanga, 2004).

2.1.4 LIQUIDITY

A business liquidity position is its ability to meet short term obligation as they fall due. (Kakuru, 2001) liquidity indicates whether the firm has sufficient funds to enable it pay its debts or short term obligations as they fall due. The liquidity position of firm is measured using ratios and these include; Working capital ratio and acid ratio. The working capital or current ratio measure the adequacy of current assets to meet short term liabilities and it reflects whether the firm is in a position to settle its liabilities as they fall due.

Acid test ratio provides the acid test of whether the company has sufficient resources (cash and receivables) to settle its liabilities (ACCA paper 2.5, financial reporting, 2004).

2.1.5 PRODUCTIVITY

This is basically used to measure the economic soundness of the use of factors of production. Drunker defined it as "that balance between all factors of the production that will give the greatest out put for the smallest effort".

Productivity is a measurement or the ratio between out put and in put, between the benefits and cost, between the efficiency and effectiveness. If this ratio is not positive, the business is having problems and thus management efficiency is judged by greater this ratio is.

Production focused activities always use output assessment measures to determine their performance (Rosner, 1992). There are little inputs usually made to center for along period of time or number of input costs at all. Management has no alternative other than looking at the outputs to assess the financial performance.

2.1.6 THE RELATIONSHIP BETWEEN AIS AND FINANCIAL PERFORMANCE

Many researchers have over years identified link between the better use of AIS and this has enhanced profitability. This is situation where the firm seeks to maximize its revenue while minimizing costs. Maximizing profits is sign of efficiency and better performance. Therefore a yardstick against which the performance of management is measured.

Proper use of accounting enhanced the transformation of accounting system of many microfinance institutions. This has promoted their financial performance.

Increased productivity due to proper AIS thus allows organizations or MFIS to produce more products and give more value to customers, quality products at low cost. This results from better utilization of resources and its results finally into increased sales, profits and return on investment.

For an individual manager, increased productivity results into more productive and rewarding work and personal satisfactions both physically and financially.

Most of the improved accounting system users have always reported improved financial efficiency, thus the speed, flexibility and accuracy provided have been the main reason for credible accounting practice in business organization.

(Nash, 1993) emphasizes the need of a formal AIS, he says the AIS are business "nervous" system and many businesses are likely to die or cease it the system is not in place. while good AIS may not guarantee a business success, a bad one can destroy a business when it lacks the system to base on in order to make their decisions, he says "imagine a business with untruth worthy accountants, one with out professional accountants who can not follow accounting standards or with out computers to quality the information". Such system may bring a business to its "knees".

Cushing, (1987) clarified that the major role of AIS is to guide the financial decision making. For example, providing stimulus for management decision making by indicating the existence of a situation, requiring management action for example a cost report that indicates a large variance of actual cash over budget cost, can stimulate management to take corrective action when there is a lot of cash at hand as started by output of AIS.
Thus such corrective decisions may enhance higher financial performance in an organization MFIS inclusive.

The AIS will take one business beyond just record keeping and provide an important financial indicator used to make financial decisions. (Ron and James, 1997) started that an AIS provides the output to that can bused as a basis for guiding and controlling the operation of business especially financially. They tell whether the business is making profits or not. There for decision makers may be in position to take right actions so as to improve performance in the organization.

(Stephen, 2004) adds that the AIS have decision support system put up to handle specifically the required information by managers like financial managers to make decisions. Such better decision making result into improved performance of the organization.

(George and Williams) backs up the AIS have economic value to the extent that it facilitates resource allocation that is financial decision making. However, for the system to pressure the organizational goal it needs a collection of resources such as people who are professional like

accountant, equipment such as computers that have accounting packages and the system should follow the dated accounting standards. Hence improved performance may occur.

However, the AIS of most of MFIS in Uganda are still poor despite how vital the system is to decision makers of a business. Most of the MFIS operate with out professional accountants and other skilled personnel who are key drivers of AIS.

CHAPTER THREE

METHODOLOGY

This chapter presents the methodology against which the study was conducted; it begins with research design, sample population, sample size, sources of data, data collection methods, data analysis method, presentations and limitations of the study.

3.1 RESEARCH DESIGN

On carrying out the study, the research was descriptive in nature so as to clearly describe the variables under study and analytical design to evaluate accounting information systems and financial performance in microfinance institutions.

The researcher was involved in analyzing different literature of different authors on the same subject matter.

3.2 POPULATION SAMPLE

The sample population constituted 60 staff members of pride micro finance limited in branches of Kampala district; consisting of branch managers, banking officers, loans officers, accountants of different departments, assistant accountants, secretaries, credit analysts.

3.3 SAMPLE SIZE

The research was based on the sample Size of 40 employees of pride micro finance limited in Kampala district branches.

3.4. SAMPLING TECHNIQUE

The researcher used systematic sampling technique where each member was selected at random. Random number table was used once to find the starting point.

PROCEDURE FORMULATION

Let N be the population size, n be the sample size, K the number of intervals.

Population size =60, sample size= 40. Thus 40 will be selected and the size of each interval will be 1.5 (60/40).

3.3 SOURCES OF DATA

Data sources was both primary and secondary hence company records concerning the subject matter of the study was consulted at length to extract that information required to answer the research questions. Interviews including individual was conducted; and questionnaires were distributed to constitute primary first hand information, those sources were accessed from the internet and libraries of KIU, Kyambogo University and even from different branches which were visited. It involved; journals, reports, internet, text books, articles, magazines, newspapers.

3.4 DATA COLLECTION INSTRUMENTS

The researcher used both primary and secondary data collection methods. The tools that will be used to collect primary data include: interviews and questionnaires. And for collecting secondary data was documentary analysis.

3.5 QUESTIONAIRE

Is a self report instrument used for gathering information about the variables of interests in the investigation. Questionnaires were used to explore and get relevant data from the field according to the researcher. This was a good system of collecting data since more people do not want to reveal their identity and can only give data in privacy. By so doing relevant detailed data was collected.

3.6 INTERVIEWS

This is an oral questionnaire where the investigator gathers data through direct verbal interaction with the participants. Conversations were held with the staff of pride micro finance limited of Kampala branches so as to get first hand information. In so doing, relevant data was collected. The greatest advantage of this instrument was that the researcher's ability was to notice and

assess respondent's feelings and attitudes towards particular and patent questions asked in relation to the content of the research.

3.7 DATA ANALYSIS

After the collection of data, it was analyzed by use of computer programmes; Microsoft word for editing the data, then qualitative and quantitative statements were used to further analyze the data. Where figures were used, for example use of frequency distribution tables were used to summarize the data.

3.8 LIMITATIONS OF THE STUDY

Limited time. It was not enough for the researcher and hence making it impossible to use bigger sample but he used a small sample to represent the whole population.

The researcher had a problem of some respondents hiding information. But the researcher tried to be tactful and ensured that respondents give him enough information since it was for academic purposes.

Inadequate funds limited the effectiveness of data collection since it was difficult to get transport, papers and other necessary requirement. The researcher however minimized this by operating at minimum cost and used appropriate methods of data collection.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS
INTRODUCTION

This chapter presents the major findings of the study, their discussion and analysis. It begins with demographic characteristics of the sample and later on the AIS on financial performance of MFIs by use of tables. The findings in this chapter were the outcomes from the answered questionnaires by loans officers, accountants, credit analysts, secretaries, banking officers, managers, who were thought to have relevant information to the study.

4.1 RESPONDENT RATE

The researcher distributed 40 questionnaires and was able to collect information from all. This was because of using self administered questionnaires since the report findings were based on the respondent's views on the AIS and financial performance of Pride Micro Finance Limited in Kampala district.

Table 4.1 Selected respondents

Category of respondents	Frequency	Percentage
Loan officers	7	17.5%
Accountant	21	52.5%
Secretaries	7	17.5%
Credit analysts	2	5.0%
Banking officers	5	12.5%
Managers	6	15%
Banking assistant	7	17.5%
Total	40	100%

Source: Primary data

From the above table 4.1, it can be seen that the majority of pride microfinance staff that were interviewed are accountants. They represent 52.5% followed by loan officers and banking assistants with 7%, managers with 6%, banking officers 5% and lastly credit analysts with 2%. From all the above categories of the respondents, it is the category of accountants that some information about education, sex, occupation and age gives more relevance to the study.

Table 4.2: Respondent's Sex

Sex	Frequency	Percentage
Male	30	75%
Female	10	25%
Total	40	100%

Source: Primary data

It is noted from the above that much data was generated from male respondents represented by 30 out of which forms 75% as compared to 10 females forming 25%. The mixture of both sexes made the researcher to realize that both males and females were participating in the all activities of PMF. The smaller percentage of females could perhaps explain loopholes of AIS of PMF performance and the major reason for that was that women when pregnant must be given maternity leave and this hinder PMF performance. And their increased participation would probably mean an increase in the level of financial performances.

DEMOGRAPHIC CHARACTERISTICS

4.3   Age category of respondents

Age group	Frequency	Percentage
20-35	22	55%
36-50	16	40%
51+	2	5%
Total	40	100%

Source: Primary data

From the above table, it can be seen that the majority of respondents are in the category 20-35 years of age, representing 55%. This is followed by 36-50 years accounting for 40%. While 2% respondents are in the category of 51+ years of age.

Therefore, from the above analysis it can be observed that majority of the staff of PMF were young people with energetic and eager with fresh minds to work hard and improve the performance of thee organization.

4.4 Respondent's education level

Level of education	Frequency	Percentage
Diploma	02	5%
Degree	38	55%
Total	40	100%

Source: Primary data

From the above table, the majority of the staff of PMF are degree holders (95%). The 02 respondents are diploma holders meaning that organisation has well skilled personnel to run their activities effectively, and therefore information got from them was reliable and relevant for the researcher.

According to the table 4.4 above, majority of the respondents (20 out of 40) showed that the major challenge of PMF is data manipulation represented by 50% followed by fraud with 37.5% that is 15 out of 40 respondents. They revealed that these two causes are the most common ones. Errors were also considered by few respondents as a challenge to AIS in PMF.

According to the table 4.4 above, 12.5% of the respondents indicated that performance is at its high levels; 25.5% of the respondents revealed that their institution is performing at medium levels and 62.5% of the respondents showed that the institution was performing at its lowest level. This implies that there was a poor relationship between AIS and financial performance of the organization.

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Table 4.5: Solutions to the challenges

Solutions	Frequency	Percentage
Improve communication systems	05	12.5%
Skilled personnel	25	62.5%
Improve computer systems	10	25%
Total	40	100%

Source: primary data

According to the table 4.5, it was revealed that challenges can be solved by different measures. It was revealed by the respondents that recruitment of skilled personnel can be used to solve challenges as indicated by the majority of the respondents that is 62.5% meaning that most of the employees are of poor skills to manage the work. It was also revealed that other measures can also be equally used as shown in the table 4.7: for example improved communication systems and computer systems among others. Thus for the organisation to control AIS it can not use only one solution but rather should select a best combination of measures.

4.6 FINDINGS ON THE NATURE OF AIS IN PMF'S LTD

PMF have been reported of having a system that is not acting effectively. The Uganda Revenue Authority has reported that most MFI's pride Uganda inclusive lack the required AIS their records have showed that the organization has few professional accountants who are registered as public accountants.

The institution has got a weakness with its AIS. The owners are still prone to the crippling disease of employing the poor skilled accountants to control and manage the business. Still imagine that they have all the necessary facts on their finger tips as are so intimately engaged in running the business. They therefore do not bather to employ the necessary resources for the accounting resources.

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4.7 FINDINGS ON FINANCIAL PERFORMANCE

Table 4.7: Level of the financial performance

Level	Frequency	Percentage
High	05	12.5%
Medium	10	25%
Low	25	62.5%
Total	40	100%

Source: Primary data

Financial performance is already pointed out is viewed form the financial strength or weakness of the institution. It involves the changes in the financial position of the MFIs. The indicator of financial performance in the form of ratios which covers a number of concepts as liquidity, profitability, productivity. Therefore, the study brought to the researcher's understanding of the fact that profits are the major aim of doing business and that owners of the organization provide capital to earn a profit. The researcher learnt that with the competitive banking environment, profit will be maximized if only the accounting information system of the institution is in the right order.

4.8 FINDINGS ON RELATIONSHIP BETWEEN AIS AND FINANCIAL PERFORMANCE

In this respect, it is clearly evidenced from the theoretical and empirical under pining that a link exists between AIS and enhanced business financial strength, profitability and future profits of the organisation.

With AIS, only those specific accounting activities say arranging business transaction data as journal entries, drawing ledger accounts and preparing trial balance together with financial statements are done automatically by the computer. This has impeded timely and credible financial performance.

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Liquidity position of the institution as already pointed out is the ability of the firm to meet its short term obligations. The shorter period given to debtors, the more money available to meet short term obligation of the firm.

Productivity is the relationship between inputs and outputs are used to measure the economic soundness of the use of factors of production. It is also used as a measure of efficiency and effectiveness. Production focused activities always use output performance.

Thus, the researcher was able to understand and believe that a positive relationship exists between AIS and financial performance of organisation

4.9 FINDINGS ON CHALLENGES FACED BY PMF LTD IN OPERATING IT'S ACCOUNTING SYSTEM

Table 4.9 Challenges

Challenges	Frequency	Percentage
Error	05	12.5%
Fraud	15	37.5%
Data manipulation	20	50%
Total	40	100%

Source: Primary data

Although the accounting practice is complex in business of any type, the organisation usually faces more challenges while running its accounting activities. The organisation attains low sales and turn over and this cannot in any way widen its profit. This means it was not operating credible accounting system, as it can not employ the required specialists. In technical term the institution is prone to problems of errors and mistakes and the likelihood of looking accounting data. Therefore the perception of the organisation operators especially that they lack resources and poor CAIS are major gaps in the organization. Accounting in all, unnecessary delays are still evidenced in the firm that have computerized their AIS due to the fact that some work is still done by human beings who are not 100% accurate especially in entering data and also transferring funds.

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CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

This chapter presents the conclusions derived from the findings of the study and the recommendation. It also covers the proposed areas for further research.

5.1   CONCLUSION

The review of related literature above indicates the organisation still use a poor accounting information system. Their AIS are inadequately computerized and consequently can not efficiently accomplish the financial performance activity. The main reasons for not using better AIS in the institution are the characteristics of the organizational decision makers, the innovation factors and the nature of business. The owners have the poor skills and knowledge to operate the AIS effectively. Besides they took the improved AIS to be so expensive.

Financial performance includes the analysis of changes in the financial position of a firm. Financial factors in form of ratios and are grouped as profitability, liquidity, operating efficiency and productivity. The study thus demonstrated that it is a combination of a number of factors that drive motivation to adopt better AIS to be acknowledged and appreciated by the organisation.

Therefore, it should be noted that the institution is uninformed about the benefits of using an improved AIS and consequently do not adequately achieve a strong level of financial performance.

5.2 RECOMMENDATION

Following the discussion from the literature and the above conclusions, the researcher came up with the following recommendations.

Pride microfinance owners should try to acquire the required accounting information systems resources like professional accountants, auditors, and computerized accounting packages. These

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can enable the firm to collect the required information and process it as it should be thus bringing out the quality output that is needed to improve financial performance by decision makers.

The systems codes like the accountants should follow the accounting standards. This will qualify the systems output to the required standards. Thus being viable for financial decision makers to improve on performance of the organization.

Training of staff to the accounting departments not only in accounts but also in the basic management principles. This can be enhanced by preference of graduates with professional accounting training, such kind of training will also bring to the minds of the accountants that accounting information is vital thus they may be seen to produce output as measured.

The institution should try to attend seminars so that they acquire knowledge of modern form of AIS that process accountability data which will enable financial decision makers to make viable decisions for the organizational progress.

I would recommend that training organizations should consider liaising with industry groups to offer enough IT skills development programmes to the organisation. The study revealed that some problems in the advanced AIS involving frauds, which is more of management propelled. I would recommend more measures put in place especially in the segregation of duties and other internal controls put in place.

5.3 AREAS FOR FURTHER RESEARCH

The findings of this research reveal potentials for further research in a number of areas such as;

1) Pride microfinance need to carry out more studies on how computer would be implemented in all its depth in order to utilize the upcoming benefits of the unfolding it revolution.

2) A further research on the AIS and entire performance of the organization.

3) The effects of financial reporting on financial performances.

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5.5 APPENDIX

QUESTIONNAIRE

A few questions are designed to obtain relevant information about accounting information systems (AIS) and financial performance of the micro finance institutions (MFIS). The questionnaires are distributed to the users of the system to be filled and returned on a given date.

Occupation...

Gender..

Education level..

Age...

Write

Tick the appropriate answer.

Key;

Strongly agree

Agree

Disagree

Strongly disagree

Does not apply

There have been internal auditors.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

There have been internal auditors.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

There has been an external auditor.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

Financial assessment.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

Financial accounts have been prepared according to international accounting standards.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

There are full documentation and record keeping of financial transactions on a regular basis

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

Loan assessment

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

Financial reports are prepared at the end of every month

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

There has been preparation of pass book for every client.

1 ☐   2 ☐   3 ☐   4 ☐   5 ☐

There has been effort to sensitize masses about the acquisition of loans.

1 [ ]   2 [ ]   3 [ ]   4 [ ]   5 [ ]

Introduction letter

The interviews were conducted in among the employees of pride micro finance limited in Kampala district; managers, banking officer, loans officers' accountants, assistant accountants, credit analysts. This guided the researcher in carrying out individual interviews in order for him to accomplish his objectives.

Dear sir/Madam,

This study is concerned with accounting Information Systems [AIS] and Financial Performance of Micro-Finance Institutions. It is a purely academic inquiry whose findings are to be used for academic purposes only. You are requested to answer these questions without fear.

You need not to mention your names .Thank you.