INTERNAL CONTROL SYSTEM AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN RUBAGA DIVISION. A CASE STUDY OF BRAC MICROFINANCE KABUUSU BRANCH KAMPALA UGANDA.

BY

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1161-05014-04275

A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE AWARD OF BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY.

MARCH 2019

DECLARATION

I, Nyiramfitumukiza Betty the undersigned, hereby declare that the work contained in this research project is my own original work and that it has not previously in its entirely or part been submitted to any university.

NYIRAMFITUMUKIZA BETTY

Signature..

Date...11th march : 2019.........................

APPROVAL

This is to certify that this research report has been under my supervision and is now ready for submission to the college of Economics and Management of Kampala International University, with my approval.

(SUPERVISOR)

Signature ………………………………

MRS. IRAU   FLORENCE

Date………11th/03/2019

DEDICATION

I dedicate this piece of work to my family and relatives especially my Dad Mr.Ziramenya Charles , my mother Mrs. Muhawe Jenipher, my in law Mr. Mwesigye Alexander .my Uncle Mr. Niyonzima Fred my brothers and sisters and my mentor Mrs Irau Florence who gave me all the guidance towards this work and also my friends Kauda Madia and Isaac and many more who have been there for me at the university.

ACKNOWLEDGEMENT

I thank God the Almighty whose guidance, Mercy and Grace made my report writing a success and kept me alive all through my education. I am indebted to Mrs.Irau Florence who supported, encouraged, guided and equipped me with all the skills used in writing this report. Furthermore I wish to covey my thanks to the University for the Facilities provided through the library and computer laboratories, I also extend my sincere appreciations to all my parents for their contribution towards this report.

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LIST OF ABBREVIATIONS

ACCA   -   Association of Chartered Certified Accountants

SEC   -   Securities Exchange commission

AMF   -   Financial Markets Authority

COSO   -   Committee of Sponsoring Organizations

GOU   -   Government of Uganda

NADC   -   Norwegian Agency for Development Corporation

NGO   -   Non Governmental Organization

SPSS   -   Statistical Package of Social Sciences

IDT   -   Innovation Diffusion Theory

ABSTRACT

The purpose of this study was to determine the relationship between internal control system and performance of microfinance institutions in Rubaga Division. And the specific objectives were to find out the effect of control activities on the performance of microfinance institutions in Rubaga Division, to determine the effect of monitoring and evaluation on the performance of microfinance institutions in Rubaga Division and to establish the effect of risk assessment on the performance of microfinance institutions in Rubaga division.

It was found out that there is a linear positive relationship between the variables of the study .Results also indicated that control activities, monitoring and evaluation and risk assessment significantly affect the performance of microfinance institutions.

Finally the study generally recommended that financial institutions should Review their existing internal controls and strengthening them through policy implementation and that they should also put in place clear internal control systems to monitor proper compliance on internal controls.

CHAPTER ONE

1.0 Introduction

This chapter explains the background of the study which involved historical perspective, problem statement, objectives of the study, research questions, scope of the study, significant of the study and the conceptual framework.

1.1 Background

1.1.1 Historical perspective

Globally, Internal Control system consists of specific policies and procedures designed to provide management with reliable assurance that the goals and objectives it believes important to the entity will be met. Internal control system has been adopted to a higher extent in more developed countries like china and USA compared to the countries of the south Uganda Inclusive (COSO 2017).According to COSO 2004, the reasons to have internal controls is to promote operational effectiveness and efficiency, provide reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The AMF Working Group (2007) looked at the components of internal controls as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

During the 1980s, several high profile audit failures led to the creation of the committee of sponsoring organizations of the tread way commission(COSO) organized for special purpose of redefining internal control and the criteria for determining the effectiveness of internal control (simmons 1997). They studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies, independent auditors, educational institutions the Securities Exchange commission(SEC) and other regulators (COSO1985).The product of their work is known as the COSO internal control-Integrated Framework(Simmons 1997). The framework also points out that internal control are the most effective when they are built up into the entity's infrastructure and further states that built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions(COSO 1992).

Brac microfinance has adopted better control methods like internal audit and computerized accounting to record, report and analyze their company's financial information and in doing this, the institution often generates several pieces of financial information from business transactions, and compile this information into general ledgers and journals, (Osmond, 2011). The internal control system especially business technology has created significant advances in the area of financial management and accounting software thereby improving the performance of microfinance institutions.

1.1.2 Theoretical perspective

The study employed the control theory. The control theory has been described as an interdisciplinary branch of engineering and mathematics that deals with dynamic systems with inputs. The external input to the system is called the reference. When one or more output variables of a system need to follow a certain reference over time, the controller manipulates to a system to obtain the desired effect on the output of the system. The objective of this theory is to calculate solutions for the proper collective action from the controller that results into system stability .That is the system will set the set point and not oscillate it.

1.1.3 Conceptual perspective.

The study considered two variables that is internal control as the independent variable and performance of microfinance institutions as the dependent variable.

Anthony (2004) defined internal control as a process effected by an organization's structure, work and authority flows, people and management information systems designed to help the organization accomplish specific goals or objectives. In this study, internal control refers to the means by which the microfinance institutions' resources are directed, monitored and measured in order to improve on the general performance.

In this study, Performance of microfinance refers to the efficiency and effectiveness in service delivery of microfinance institutions.

1.1.4 Contextual background

The study was carried out at Brac Micro finance Kabusu Branch located in Rubaga division, Kampala in the central part of Uganda. The research was carried out in Rubaga Division as it was recently publicized that microfinance institutions in the central region are failing because of poor internal control systems adopted and Uganda in General (Ministry of Finance Planning and Economic development report 2017)

1.2 Problem statement

Internal control systems are very vital to all organizations either public or private because they enhance the quality of service delivery (olumbe 2012).The government of Uganda through different publications and parliamentary sittings has continued to urge all business ventures to adopt internal control system in order to attain the set goals and objectives.(parliament of Uganda 2016).

Despite the above, microfinance institutions have been seen with the resulting incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery resulting into less revenue generated, collusion, fraud, embezzlement by employees, lack of transparency of all forms, and poor accountability of cash and all business assets which has greatly led to the closure of some microfinance institutions in Uganda (Henry kabusu 2017).

This study therefore seeks to determine whether there is a significant relationship between internal control system and performance of microfinance institutions in Uganda taking a case study of Brac microfinance Uganda.

1.3 General Objective

The purpose of this study was to determine the relationship between internal control system and performance of microfinance institutions in Rubaga Division.

1.4 Objectives of the Study

i) To find out the effect of control activities on the performance of microfinance institutions in Rubaga Division.

ii)To determine the effect of monitoring and evaluation on the performance of microfinance institutions in Rubaga Division.

iii) To establish the effect of risk assessment on the performance of microfinance institutions in Rubaga division.

1.5 Research Questions

i) What is the effect of control activities on the performance of microfinance institutions in Rubaga Division?

ii) What is the effect of monitoring and evaluation on the performance of microfinance institutions in Rubaga Division?

iii) What is the effect of risk assessment on the performance of microfinance institutions in Rubaga division?

1.6 Scope of Study

1.6.1 Subject Scope

This study was limited to internal control techniques and performance of microfinance institutions in Rubaga Division. Internal control was the independent variable and performance of microfinance institutions was the dependent variable of the study.

1.6.2 Geographical Scope

The study was carried out at Brac microfinance institution Kabusu branch located in Rubaga Division Kampala District in the central part of Uganda.

1.6.3 Time scope

The study focused on the branch of Brac microfinance institution that has existed for a period of five years in order to collect enough secondary and primary data which is relevant for this study.

1.7 Significance of the Study

The study will help the researcher to improve her knowledge on internal control and service delivery in microfinance institutions.

The study will help the researcher to gain more knowledge concerning internal control techniques.

The study will help the researcher to attain a bachelors' Degree of Business Administration since its part of the requirements for attaining that award.

The study will add to the existing literature on internal control and performance of microfinance institutions in Uganda.

1.8 Conceptual Framework

Fig 1: The Relationship between Internal Controls, Financial Accountability and performance of microfinance institutions.

Internal Controls

(Independent variable)

Performance of microfinance institutions

(Dependent variable)

```
┌──────────────────────────┐                 ┌──────────────────────────┐
│ Control activities       │                 │ Efficiency               │
│ Monitoring and evaluation│────────────────▶│ Quality                  │
│ Risk assessment.         │                 │ Satisfaction of          │
│                          │                 │ customers                │
│                          │                 │                          │
└──────────────────────────┘                 └──────────────────────────┘
                 │
                 │
   (Intervening variable)
                 │
                 ▼
        ┌──────────────────┐
        │ Government       │
        │ policies.        │
        │  Technology.     │
        │ Rules and        │
        │ regulations      │
        └──────────────────┘
```
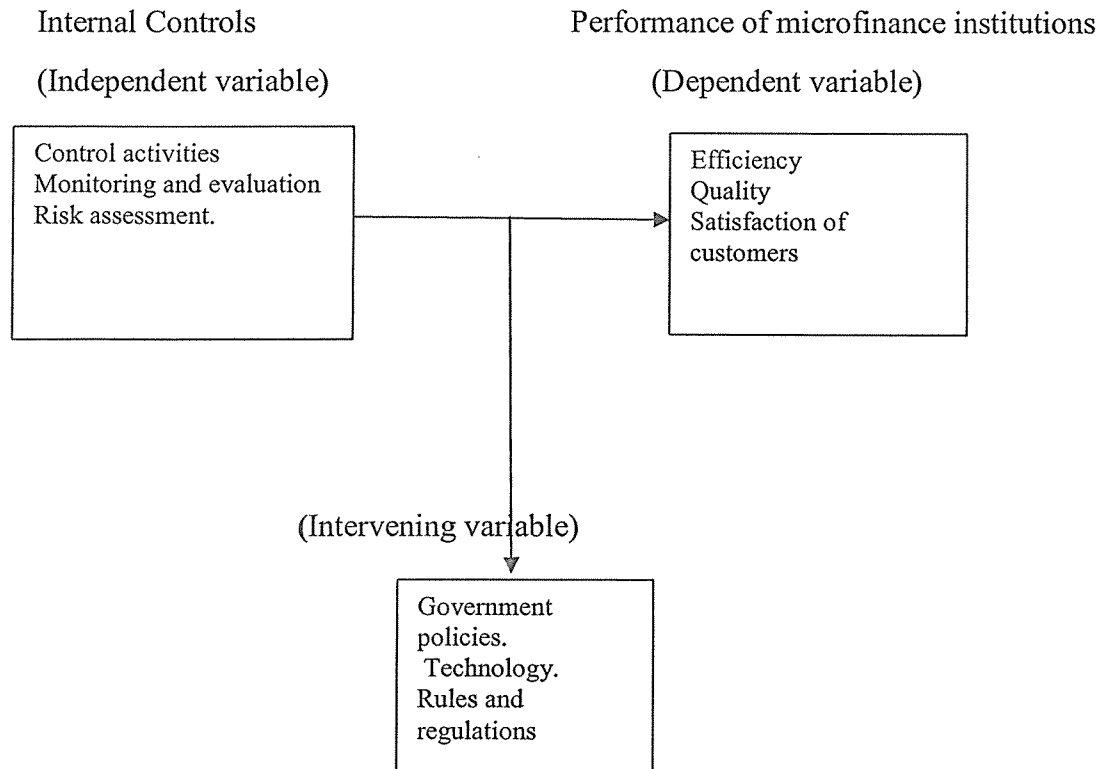
Source: Adopted and modified basing on information from Adams (2002).

The figure above clearly explains how the independent variable, intermediate variable and the dependent variable were measured in this study. The dependent variable was measured in terms of Control activities, monitoring and evaluation and Risk assessment, the intermediate variable was measured in terms of government policies, level of technology and rules and regulation that govern the institution and finally the dependent variable was measured in terms of Efficiency, quality and Satisfaction of customers.

1.9 Definition of Key terms

Internal Controls

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

Service Delivery

A service is an activity or a series of activities of more or less intangible nature that normally, but not necessarily, takes place in interactions between the customer and service employees and/or systems of service providers, which are provided as solutions to customer problems (Finn& Kayande, 2006).

Accountability

Accountability is the liability that one assumes for ensuring that an obligation to perform a responsibility is fulfilled (Frost, 2000).Accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one's own actions in relation to these events or transactions (Kikonyogo, 1999).

Financial accountability

Bothwell (2001) asserts that financial accountability as a performance indicator is connected with ensuring that money given to people is spent according to the budgeted items and activities using the set rules. In another perspective, Brown (1998) considers financial accountability as assessment of value for money and acceptance by individuals of personal responsibility for their actions in relation to quality of their outputs and decisions

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the existing literature on the study variables that is the theoretical review, conceptual review and the empirical review about each objective.

2.1 Theoretical review

Control theory.

The control theory has been described as an interdisciplinary branch of engineering and mathematics that deals with dynamic systems with inputs. The external input to the system is called the reference. When one or more output variables of a system need to follow a certain reference over time, the controller manipulates to a system to obtain the desired effect on the output of the system. The objective of this theory is to calculate solutions for the proper collective action from the controller that results into system stability .That is the system will set the set point and not oscillate it. According the proponents of this theory, this theory works hand in with the financial intermediation theory which was put forth by Gurley and Shaw 1960 which they based on the theory of informational asymmetry and the agency theory. In principle, the existence of financial intermediaries is explained by the existence of the following categories of factors: high cost of transaction, lack of complete information in useful time assumptions there is perfect market where no one participant can influence the prices; the placement/borrowing conditions are identical for all participants; there are no discriminatory fees; the lack of competitive advantages at the level of participants; all financial securities are homogeneous, dividable and transactional; there are no transaction costs for obtaining information or of insolvency; all Participants have immediate access to the complete information regarding the factors and elements that can influence the current or future value of the financial instruments. The financial intermediation theory highlights the role of financial intermediaries in economy; most of the studies performed highlight their role in achieving a durable economic growth, and the impact of regulations on financial intermediation, accentuating the role of the central bank in the regulation, supervision and control of financial intermediaries. This theory will assist in analyzing the transactions behavior of microfinance institutions, and how it affects their financial performance. The control theory further suggests that institutions should make decisions from an informed environment that involves innovation and technology as well as new control environment. The scholars of this theory further suggested that economists should know that success in

achieving financial performance returns from fast dynamics like control systems there by leading to a well monitored successful project.

2.2 Conceptual review

According to COSO (1998), Pandey (1998), & Anthony (2004), internal control is defined as the process effected by an entity's board of directors, management and other personnel designed to provide a reasonable assurance regarding the achievement of objectives. They further explained that there exists five components internal controls that must be present in order to conclude that internal control is effective namely; Control environment, control activities, risk assessment, information and communication, and monitoring and review.

This study was based on two variables; internal controls as the independent variable, performance of microfinance institutions as the dependable variable and the intervening/mediating variable was explained in terms of Government policies, Level of technology and the rules and regulations that govern the organization. According to the model, there are internal control components that must be present in order to conclude that internal control is effective (Adam (2002), Martin & Terblancle (2003), Anthony (2004) and the AMF Working Group (2007). In this framework, internal controls should be the concern of every employee of the firm and should be the main stay of the firm's culture in order to have effective and sound internal control system leading to proper financial accountability and eventually enhancing better performance in the organization. Each company is responsible for its own organization and hence its internal controls developed within an overall framework of sound governance (AMF Working Group, 2007).

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

2.2.1 Performance of microfinance institutions

Performance measurement is the evaluation of the outcomes of an organization as a result of management decisions on resources of an organization and execution of the decisions made by the organization's members (Hofer 1983). Performance measurement of an organization has been dominated by the use of traditional accounting measures as the key financial performance measures. The use of financial metrics only is criticized to be oriented as it uses the past information which has low ability to determine about the future of the organization (crabtree& Debusk 2010).

Performance measurement in Microfinance institutions has recently undergone some significant changes from both internal and external points of view. The external factors such as , changes in the business environment, technology, involvement of commercial banks I Microfinance institutions and increased competition resulted into a shift in the performance of Microfinance institutions with the stakeholders not only requiring improving in financial performance measures but also balance between financial and non financial measures(Hermes 2011). The primary objective of Microfinance institutions is to outreach to the poor through the provision of financial services which will have an impact on poverty alleviation. To fulfill this objective, microfinance institutions should allocate better available resources as well as well as operate in a sustainable basis. Resnberg (2002) shows that Microfinance institutions performance measurements involve four core areas, outreach, repayment rates, sustainability and efficiency.

Recent studies show that majority of Microfinance institutions reviewed were found to be weak in financial sustainability. Several researchers also have inferred that microfinance performance outreach is still very low compared to the potential demand of financial services. The study by grogan& Pandey(2016) in Uganda compared performance of Microfinance institutions with commercial banks. The findings revealed that, Microfinance institutions in the country incur high costs due to their door to door adopted pattern of service delivery. The high costs are associated with staff trainings costs and costs associated with offering small size loans with shorter maturity periods.

The latest study by Andrew Kagwa (2018) revealed that Microfinance institutions have contributed to poverty eradication in rural areas especially through giving loans with low or no collateral security like motorcycle loans which has affected the performance of institutions as most of the people end up defaulting. The study further revealed that microfinance institutions' performance is greatly hindered by loan defaults.

2.3 Related literature

2.3.1 Effect of Control Activities on the performance of Microfinance institutions.

Craig (1999) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Dublin (1999) considers control activities as activities that provide evidence that a loss has occurred. They include; analysis, reconciliations, and reviews. He emphasized the importance of authorizations in the form of expenditures as a result of an approved budget as a control activity. Approval of budget expenditure should involve questioning of unusual items, justification of the transaction and review of source documents (Van Horne, 2002). Control activities are actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004). He further categorized the activities as preventive and detective. Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise of; proper authorization, segregation of duties, sufficient documentation, and physical control of assets. COSO (2004) considers control activities as policies and procedures established to address risks and to achieve the entity's objectives. To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable, and directly relate to the control objectives. Control activities occur throughout the organization, at all levels and functions. They include a range of preventive and detective activities for example; authorization and approval procedures, segregation of duties (authorizing, processing, procuring recording, receiving), controls over access to resources and records, verifications, reconciliations, reviews of operating performance, reviews of operations and activities, and supervision (assigning, review in and approving, guidance and training), among others. APB (1995) noted that under reviews of performance, management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

According to Pandey (1998), COSO (1998) and Anthony (2004); control activities comprises of the policies and procedures that help to ensure that management directives are carried out. They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage or reduce risks. In the same way that managers are responsible for identifying financial and compliance risks for their operations, they also have line responsibility

for designing; implementing and monitoring their internal control systems added Bazzoli (2000).

2.3.2 Effect of Monitoring and Evaluation on the Performance of Microfinance Institutions in Rubaga Division.

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

Walker, Shenkir & Buton (2003) said that monitoring processes are used to assess the quality of internal control performance over time. Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self assessments, peer reviews, and internal audits.

According to Anthony (2004), the purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed. Internal control is effective if management and interested stake holders have reasonable assurance that they understand the extent to which operational objectives are achieved, published financial statements are being prepared reliably, applicable laws and regulations are being compiled.

According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the project should also be registered in the progress report. The progress report provides major information input to the project review (NADC, 1996).

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2.3.3 Effect of Risk Assessment on Performance Microfinance Institutions In Rubaga Division.

COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective. According to Jenny & Pamela (2006), risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Thus, setting objectives is a precondition to internal controls.

At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives (Nakazi, 2002). In a similar view, Gleiling (2005) noted that at the departmental level, goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Specifically, a department or work unit should have a mission statement, written goals and objectives for each significant activity (Manashe, 2000). Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurement (Gleiling, 2005). In this regard, Sias (2004) lamented that there are certain activities which are significant for all organizations such as; budgeting, purchasing goods and services, hiring employees, evaluating employees, and safeguarding property and equipment.

Cochran (2000) considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable but not absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what asset are at risk, and who is in a position of risk . The risks may include; public scandal, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making. Alternatively, Smith (2005) considers identification of risks as a challenge to some organizations. The internal controls can give management information about the entity's progress or lack of it

towards achievement of objectives but cannot change an inherently bad manager into a good one.

2.3.4 Relationship between Internal Controls and performance of microfinance institutions.

The following makes a review on the General objective of the study.

Through the internal controls, the desired employee's performance and service delivery is achieved in accordance with the set internal control objectives and as per guiding organizational policy (Groth (2005). According to Magala (2001) and James (2005,) internal control helps to ensure that planned activities are achieved as per set objectives in terms of realizing the desired service delivery needed by the organizational policy thus performance stature. Cox (2000) said that internal control leads to efficiency in utilization of organization resources whereby; jobs are carried out as explained by their description, availability of employees for work at all times, and equitable allocation of resources and hence, timely service delivery resulting into a better performance of the firm. Anderson (2000) added that it avoids having idle staff in the organization thus ensuring constant provision of services and performance of the institution in general.

Internal control assists managers to get the best measures of the impact of different transactions geared towards generating a diversified portfolio of investments, thus enhancing proper accountability (Donald 2011). According to ACCA (2004), assessment of risk involves the analysis and establishment of plans in order to prevent the risks associated with the attainment of company objectives. The control activities include policies and procedure formulated by management in order to ensure the effectiveness of carrying out activities with regard to the achievement of organizational goals thus improving the performance.

Internal controls ensure; usage of funds on planned organizational activities, investment of idle funds, and regular monitoring of utility (ACCA, 2004). Monitoring is important to service delivery because it provides vital feedback on how services are being delivered and whether delivery of those services makes any difference in terms of achieving the organization's specified goals (Rossi, 1993). For any system to perform effectively there must be a monitoring system (Boidman, 1993). Monitoring also shows whether the system in place is performing effectively, as this can be seen from service delivery. Bird (1992) suggested that to ensure compliance, administrators should put spot clocks and frequent audits so that loss of revenue is minimized. A service is an activity or a series of activities of more or less intangible nature that normally, but not necessarily, takes place in interactions between the

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customer and service employees and/or systems of service providers, which are provided as solutions to customer problems (Finn& Kayande, 2006). Service delivery can be taken to be an outcome of performance depending on the context in which it is used (Ayen, 2002). According to Samuel (2002), service can be expressed in terms of capacity to deliver desired services and from which customers get satisfaction. A service delivery gap is that gap between the established delivery standards and the actual service delivered (Crosby, 2000). It is an inconsistency between service design / quality specifications and the actual service quality by the service delivery system. Effective engagement between citizens, service providers and elected representatives is essential to democratic service delivery and thus better performance of the firm.

As competition in the microfinance industry grows, delivering high quality service to meet customer's needs is essential for success thus calling for a better internal control system (Porter, 2000). Quality of service delivery has emerged as the most significant strategy in ensuring the survival of organizations and also a fundamental route to business excellence as well as extending market share of microfinance institutions (Lindquist,2007). This is because satisfaction has a positive relationship to customers' future decision return to a facility to receive service. Service provision that is de-linked from citizen makes democratic decision making unlikely to deliver quality services for the poor. For meaningful contributions, the poor require the ability and capacity to ask questions and, sufficient information of their right and entitlements, service options, local and national budgets, and the systems to address when decisions are taken undemocratically or when services are of poor quality.

Although internal control system is viewed as a desirable organizational characteristic by moist writers, empirical studies indicate that both leaders and subordinates can avoid it (Guixe, (2003) and Brown & Moose 2001). Whereas projects are crucial in the overall success in any economy, in recent years in Uganda, project failures have become a common practice due to poor internal control systems adopted. However, empirical research demonstrates that pressure for controls from a multitude of external and internal stakeholders is on an increase to cause adequate service delivery. This has placed top managers in a difficult position as attempt to devise strategies that will enable their firms to survive and prosper in turbulent environment that require both financial performance and effective stakeholder responsiveness. Under such situations the difference between management and owners gets thinner and the independency of non-executive directors becomes obscured (Rakodi, 2000). According to

O'connell (2002), improved internal control system calls for poor people to increase their formal representation in formal democratic system , influence resource allocation and working practices more pro-poor and sensitive to gender and other social differences, monitor the performance of those responsible for service delivery, hold politicians and officials accountable for their performance.

According to Lame & Tan (2000), the information and communication component covers understanding of policies and procedures, validation of information, and evaluation of employee performance. In their view, monitoring, the practice of assessing the overall performance of an organization, is perhaps the most prominent of all steps of ICSs. The majority of studies on monitoring and accountability have suggested that fostering it will lead to improved financial accountability and thus higher performance of the firm.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section explained the approaches that were adopted in the study. It describes the research design, study population, area of study, sample size and sampling technique, data types and sources and, the data collection instruments. It included measurement of reliability and validity of the various instruments, and the data analysis procedures employed in the study.

3.2 Research Design

A cross sectional survey design was employed in this study. Both qualitative and quantitative approaches to data collection and analysis were employed in order to get an in-depth understanding of the phenomenon under investigation and to confirm completeness for instruments (Amin, 2005).

Table 1:Rresearch approach and relevance of the approach

Research Approach	Relevance of the approach
Quantitative approach	Numeric data
Qualitative approach	Descriptive data like sex

3.3 Study Population

The study population was 100 respondents comprising of the staff members and the customers of Brac microfinance institution.

3.4 Sample Size and Sampling Technique.

In the study, simple random sampling was used to obtain the sample size of the study and also purposive sampling was used to select respondents where necessary. The sample size of the study was established using the Yamane's (1967) formula given a finite population and the degree of precision (reliability) desired by the study.

The Yamane's formula states;

$$n = \frac{N}{1+Ne2}$$

Where; n is the sample size,

N is the known population of the study and

e is the permissible error.

$$n = \frac{100}{1+100*(0.05)^2} = 80$$

Table 2: *population and the sample selected.*

Category	Population	Sample	Sampling technique
Top management	10	5	Simple random sampling
Internal auditors	15	12	Purposive sampling
Finance	15	13	Purposive sampling
Clients	60	50	Simple random sampling
Total	100	80	

3.5 Data Source

The study employed both secondary from the journals and primary data that was collected directly from the respondents of Brac microfinance institution Kabusu Branch Rubaga Division using a self administered questionnaire.

3.6 Data Collection Instrument

Primary Data.

Primary data was collected by using a survey questionnaire.

A survey questionnaire was used in the study because it is more appropriate for collecting data for a social survey research (Kaplan, 1995) and where the target population is literate and capable of filling the questionnaire (Moser, 1979). The questionnaire was designed with reference to variables of the study consisting of both structured and open ended questions. The structured questionnaire type enabled simple data analysis through tabulation with regard to frequencies and percentages.

Secondary Data

This was collected from existing reports and journals of the organization related to internal control and performance of the institution. Furthermore, data was collected from past researches carried out by different researchers about the same topic on that particular institution.

3.7 Measurement of Variables

Internal Control; Items were accomplished by a 5 point Likert scale to measure internal controls. The scale ranged from "strongly disagree (1) to strongly agree (5)" and a total of all items were computed from each respondent reflecting internal control. (Baker, Castro, Labrena & Meyer, 2005).

Service Delivery/performance of microfinance institutions; Items were accomplished by a five-response format which were used to measure the perceived service delivery performance by the finance sector. (Normal Service Delivery Report, 2005). The scales ranged from "strongly agree (5) to "strongly disagree (1)" basing on literature that was gathered.

3.8 Reliability and Validity of the Instruments

Reliability

Reliability in qualitative research has reached little attention in the development of methods; in fact to raise issues about the reliability of another's research has been considered taboo as if it is an accusation of incompetence (Kirk and Miller, 1986). Typically, qualitative interviews are assumed reliable when the same individual collects and analyses the data, as it is the case with this research. In this study, reliability of the instruments was the degree of resistance, reliable instrument that was given the same score when many or several times to measure the same variable provided has changed for a given entity.

Validity

Validity in qualitative interviews is only achieved through the relaxed conservational approach when gathering information. In contrast to strict survey interviews in which interaction is sometimes restricted, qualitative interviewing allows opportunity for both parties to clarify what is being said. To establish validity, the designed instruments were availed to the supervisor for review and she gave an approval for administration in a pilot survey. The study employed content validity whereby the researcher specified the indicators which were relevant to the concept being measured. A representative sample of indicators was selected from the domain of indicators of the concepts of internal control and performance of Microfinance institutions using formula below;

Content Validity Index(CVI) = the number of relevant questions.

Total number of questions

3.9 Data Processing and Analysis

Collected data was edited, coded, and entered into the computer using the Statistical Package for Social Scientists (SPSS). The analysis involved Pearson correlation analysis and regression analysis. Pearson correlation analysis was used to determine the relationship between the study variables Internal controls system and performance of microfinance institutions. Alternatively, regression analysis was used to establish the extent to which the independent variable can predict the dependent variable (performance of microfinance institutions).

3.1.0 Limitations of the study

The researcher was limited by enough funds especially for supporting her in the process of Data collection as this entailed choosing less sample size which affects the results of the study.

Some respondents deliberately refused to give information about the organization.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter contains the presentation, analysis, and interpretation of results in line with the study objectives. The chapter presents; the descriptive statistics of the items under study. Statistical tools such as tables showing frequencies and percentages, and graphs were used to summarize findings from the survey. The presentation was guided by the research objectives and statistics were generated with the aim of generating responses for the research questions.

4.2 Descriptive statistics

This section presents findings in relation to characteristics of the respondents . Frequencies and percentages in tables and figures were used to reflect the findings.

4.2.1 Respondent Characteristics

The characteristics of the respondents considered included; gender, age group, level of education, and the level of management position held. The analysis was as shown in tables and figures below.

Table 3: Gender of respondents

	Frequency	Percentages	Valid Percent	Cumulative Percent
Male	30	37.5	37.5	37.5
Female	50	62.5	62.5	100.0
Total	80	100.0	100.0	

Source: primary data 2019

Figure 1: pie chat showing the gender of respondents

gender of respondents

■ male
■ female

62.5% 37.5%
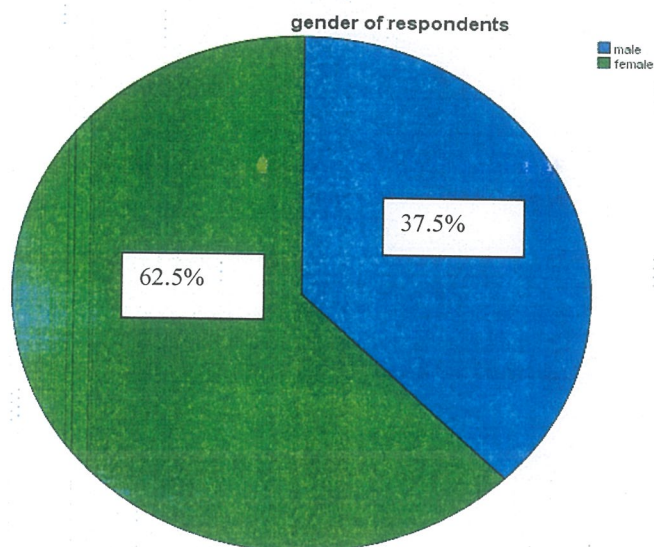
According to table 3 and figure1 above, the Gender – characteristics show that female respondents were the majority (50) constituting 62.5% in the sample as compared to their male counterparts who were(30) contributing 37.5percent of the entire sample.

Table 4: Age group of respondents

Age group	Frequency	Percentages	Valid Percent	Cumulative Percent
20-29	53	66.3	66.3	66.3
30-39	15	18.8	18.8	85.0
40-49	8	10.0	10.0	95.0
50 and above	4	5.0	5.0	100.0
Total	80	100.0	100.0	

Source: primary data 2019

Figure 2: Bar graph showing the age group of respondents
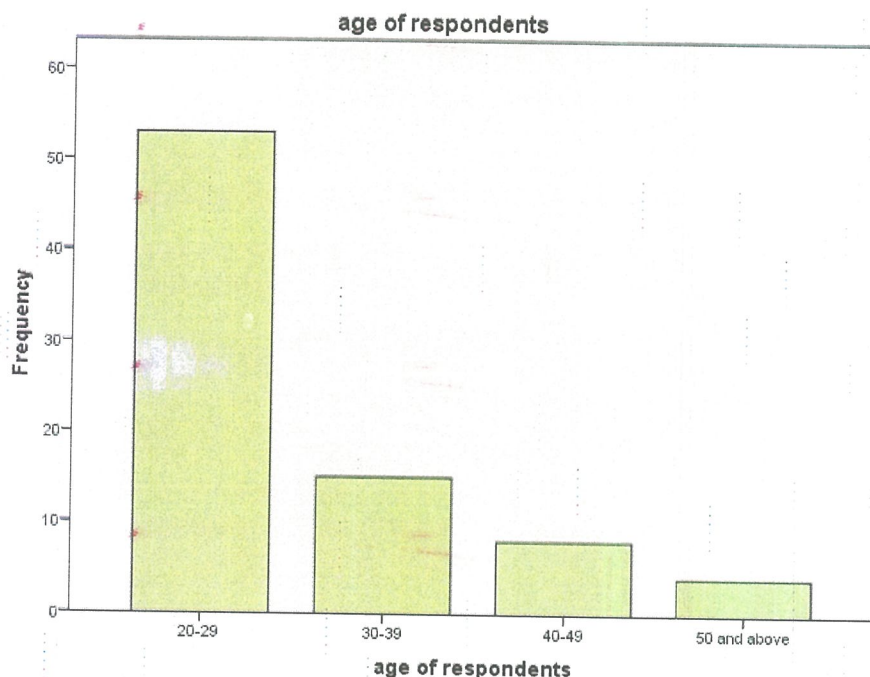
Table 4 and figure 2 above revealed that most of the respondents were in the age-group of 20-29 years(53) comprising 66.3 % and were followed by those in the age- group of 30-39 years (15) representing 18.8% of the sample The minority were in the age-group of 40-49 years(8) and the age-group of 50 and above (4) constituting 10% and 5% respectively of the sample.

Table 5: education level of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	O-Level	7	8.8	8 8	8.8
	A-level	5	6.3	6.3	15.0
	Diploma	32	40.0	40.0	55.0
	Degree	12	15.0	15.0	70.0
	Certificate	24	30.0	30.0	100.0
	Total	80	100.0	100.0	

Source: primary data 2019

Figure 3: Education level of respondents

Histogram

Mean = 3.51
Std. Dev. = 1.232
N = 80

education level of respondents
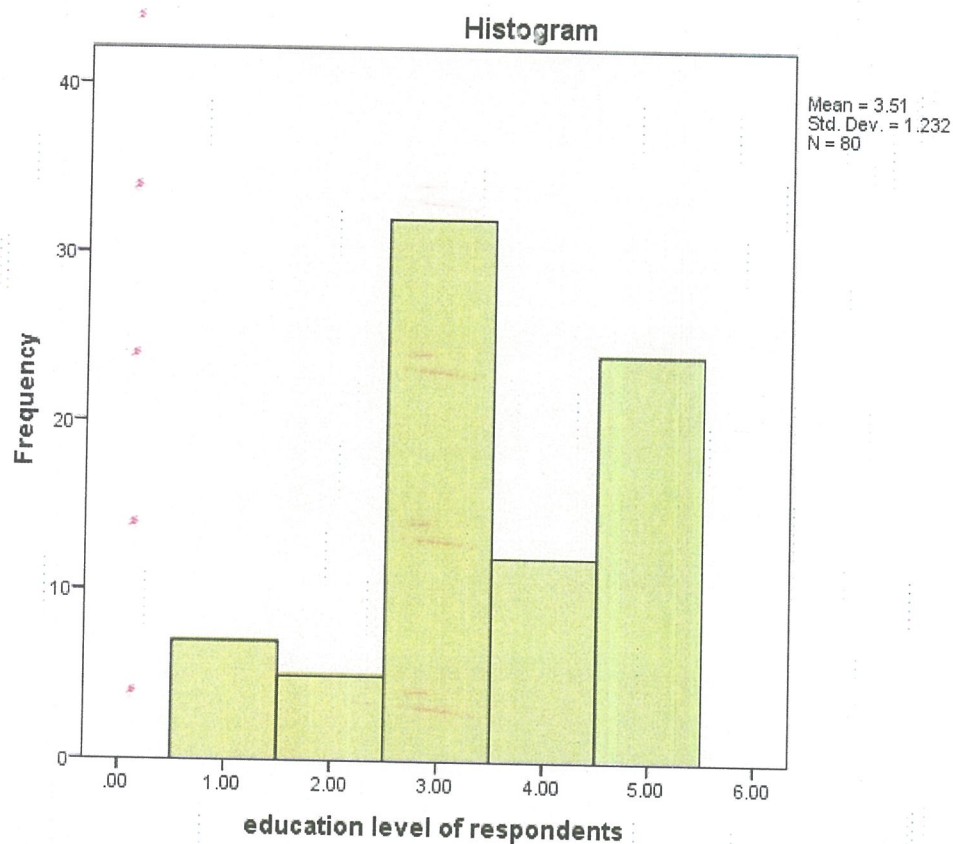
Table 5and figure 3 above indicate that (32) 40% of the respondents had attained diploma level of education, (24) 30% were certificate holders, (12) 15% were degree holders, (7) 8.8% had , "O" level qualifications and (5) 6.3% had attained "A" level standard. The implication is that the respondents were well knowledgeable of the subject matter and as such made informed decisions.

Table 6: level of management of respondents

Level of management		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Top management	16	20.0	20.0	20.0
	middle level management	43	53.8	53.8	73.8
	lower level management	21	26.2	26.3	100.0
	Total	80	100.0	100.0	

Source: primary data 2019

Figure 4: Bar graph showing employment levels.
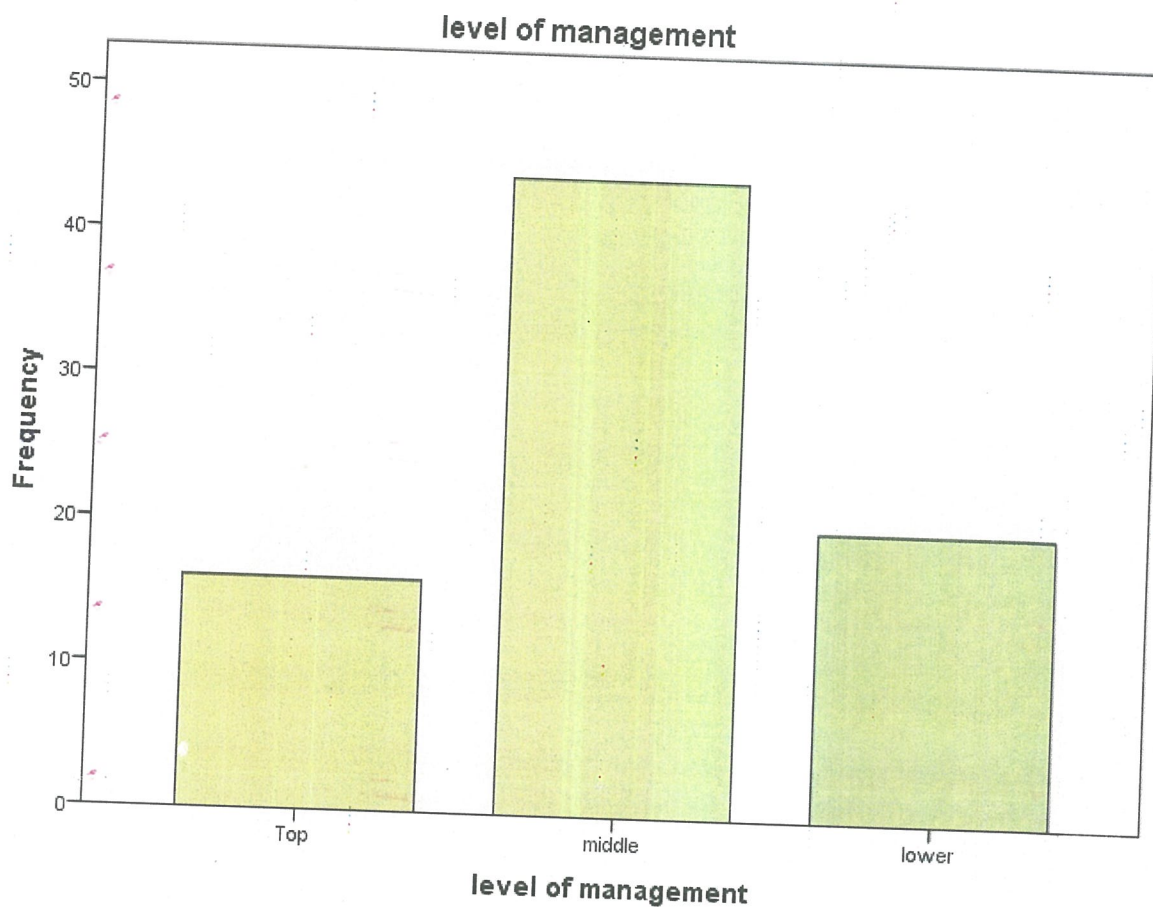
From the bar graph above, it is evident that the majority of the respondents were of Middle level management (43) comprising of 53.8% of the sample and were followed by Lower level management(23) constituting 26.2% while Top management were the minority(16) constituting 20% of the sample.

4.3 Respondents' opinion on Control activities and performance of microfinance institutions

Table 7: *distribution of respondents' responses on Control activities and performance of microfinance institutions*

Items	N	Responses (%)				
		SD	D	N	SA	A
Staff are given up to date internal control manuals for	80	11.1	15.5	16.7	27.8	28.9
Staff are aware of the penalties for breaking internal control	80	10.9	13.4	22.2	14.1	39.4
Accounts are reconciled on monthly basis to detect errors	80	.	.	16.2	32.1	51.7
All payments are authorized by responsible officer before	80	18.8	16.7	20.0	16.7	27.8
All payment procedures are followed for all transactions	80	.	1.7	13.3	40.6	44.4
All financial transactions are recorded in vouchers for future	80	45.6	31.1	15.0	5.0	3.3
This branch is frequently audited	80	59.4	23.9	10.6	2.2	3.9
The branch has an asset register which is updated regularly	80	.	.	5.0	27.2	7.8
All branch assets are corded and marked	80	.	.	18.3	37.8	43.9
The internal auditor works independently	80	49.4	15.0	12.2	6.7	16.7
All departments have clear levels of authority	80	.	.	18.3	33.9	47.8
All employees have clear duties and there is no conflict of	80	60.6	27.8	10.0	0.6	1.0
There is internal check which operates continuously as part	80	5.0	5.0	8.9	27.8	3.3

Strongly Agree 5......Agree 4.....Not sure 3.....Disagree 2.....Strongly Disagree 1.....

Average index of Control activities and performance of microfinance institutions 4.51

From table 4 above it is evident that 56.7% of the respondents agreed that Staffs are given up to date internal control manuals for reference purposes,53.5% agreed that Staff are aware of the penalties for breaking internal control procedures ,83.8 agreed that accounts are reconciled on monthly basis to detect errors and fraud,44.5% agreed that all payments are authorized by responsible officer before payment,85% also agreed that all payment procedures are followed for all transactions, 95.5% of the respondents accepted that the branch has an asset register which is updated regularly,81.7% agreed that all branch assets are corded and marked,80% of the respondents accepted that all departments have clear levels of authority and 81.1% agreed that there is an internal check which operates continuously as part of the system whereas 76.7% rejected that all financial transactions are recorded in vouchers for future references, also 83.3% of the respondents rejected that the bank branch is

frequently audited, 64.4% rejected that the internal auditor works independently and also 88.4% of the respondents disagreed that All employees have clear duties and there is no conflict of duties.

4.4 Monitoring and Evaluation and performance of microfinance institutions

Table 8:*Distribution of response on Monitoring and Evaluation and performance of microfinance institutions*

Statement	N	1	2	3	4	5
Monitoring strategies are used at any time during monitoring	80	8.9	9.4	15.0	29.4	37.2
This branch's projects are monitored and reported as required of their	80	45.0	39.4	15.6	.	.
There is a reporting mechanism for all activities of this branch	80	.	20.0	33	47.0	
Quality assurance is adhered to for all projects of the branch	80	31.7	45.0	5.0	3.3	5.01
Internal audit is independent of management influence	80	10.9	13.4	22.2	14.1	39.4
External auditors can rely on the work of internal auditors when auditing	80	.	.	16.2	32.1	51.7
Segregation of duties or mitigating controls exist within transaction ocessing, authorization custody, and recording functions	80	18.8	16.7	20.0	16.7	27.8
Separation of duties exists between procurement, account payables And Disbursements.	80	.	1.7	13.3	42.6	42.4
Average index of Monitoring and Evaluation and performance of microfinance institutions 4.15						

Strongly Agree 5......Agree 4.....Not sure 3.....Disagree 2.....Strongly Disagree 1.....

From table 5, the findings show that 66.6% of the respondents agreed that monitoring strategies are used at any time during monitoring process,47% agreed that there is a reporting mechanism for all activities of this branch,53.5% of the respondents agreed that Internal audit is independent of management influence,83.8% of the respondents also agreed that external auditors can rely on the work of internal auditors when auditing and also 44.5% agreed that Segregation of duties or mitigating controls exist within transaction processing, authorization custody, and recording functions and also 85% agreed that Separation of duties exists between procurement, account payables and disbursements whereas 84% rejected that the branch's

projects are monitored and reported as required of their monitoring and evaluation criteria, 76.7% also disagreed that quality assurance is adhered to for all projects of the branch.

4.5 Risk assessment and performance of microfinance institutions.

Table 9: distribution of responses on assessment and performance of microfinance institutions.

(iii) Risk Assessment		1	2	3	4	5
There are mechanisms in place to identify and react to changes that can	80	60.6	27.8	10.0	0.6	1.0
Controls exist for approving decisions regarding financing alternatives	80	.	.	5.0	27.2	7.8
Risks are assessed in relation to changes in the operational	80	45.6	31.1	15.	5.0	3.3
Change of new staff is clearly examined for the risks it may	80	18.8	16.7	20.	16.7	27.8
Organizational restructuring brings limited risks to the branch	80	.	.	5.0	27.2	7.8
New services posses less risks to the branch	80	.	.	18.3	37.8	43.9
The reporting mechanism in place is less risky to the branch	80	49.4	15.0	12.2	6.	16.7
Communication channels is in place for changes in service	80	10.9	13.4	22.	14.1	39.4
Internal audit has appropriate controls for service delivery	80	.	.	16.2	32.	51.7
The branch has competent and knowledgeable personnel	80	18.8	16.7	20.	16.7	27.8
This branch is kin in identifying risks	80	.	1.7	13.3	40.6	44.4
All risks facing this branch are measured	80	45.6	15.0	31.	5.0	3.3

Average index of Risk assessment and performance of microfinance institutions 3.95

Strongly Agree 5......Agree 4.....Not sure 3.....Disagree 2.....Strongly Disagree 1.....

From table 6 above, it is revealed that 95% of the respondents agreed that controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods,44.5% agreed that change of new staff is clearly examined for the risks it may cause,95.5% agreed that organizational restructuring brings limited risks to the branch,81.7% also agreed that new services posses less risks to the branch, agreed that communication channels are in place for changes in service delivery,83.8% of the respondents agreed that internal audit has appropriate controls for service delivery,44.5 of the respondents agreed that the branch has competent and knowledgeable personel,85% agreed that this branch is kin in identifying risk, whereas 88.4% of the respondents disagreed that there are mechanisms in place

to identify and react to changes that can have dramatic effects on the branch,64.4% rejected that the reporting mechanism in place is less risky to the branch ,60.6 also rejected that all risks facing this branch are measured and also76.7% rejected that risks are assessed in relation to changes in the operational environment.

4.3 The Relationship between Internal Controls and performance of microfinance institutions.

Table 9: Relationship between Internal Controls and performance of microfinance institutions.

Response	Frequency	Percentage
Yes	77	96.25
No	03	3.75
Total	80	100

Source: Primary Data 2019

Figure 5: A pie chart showing the relationship between the study variables

relationship between the variables

there is relationship
there is no relationship

3.75%

96.25%
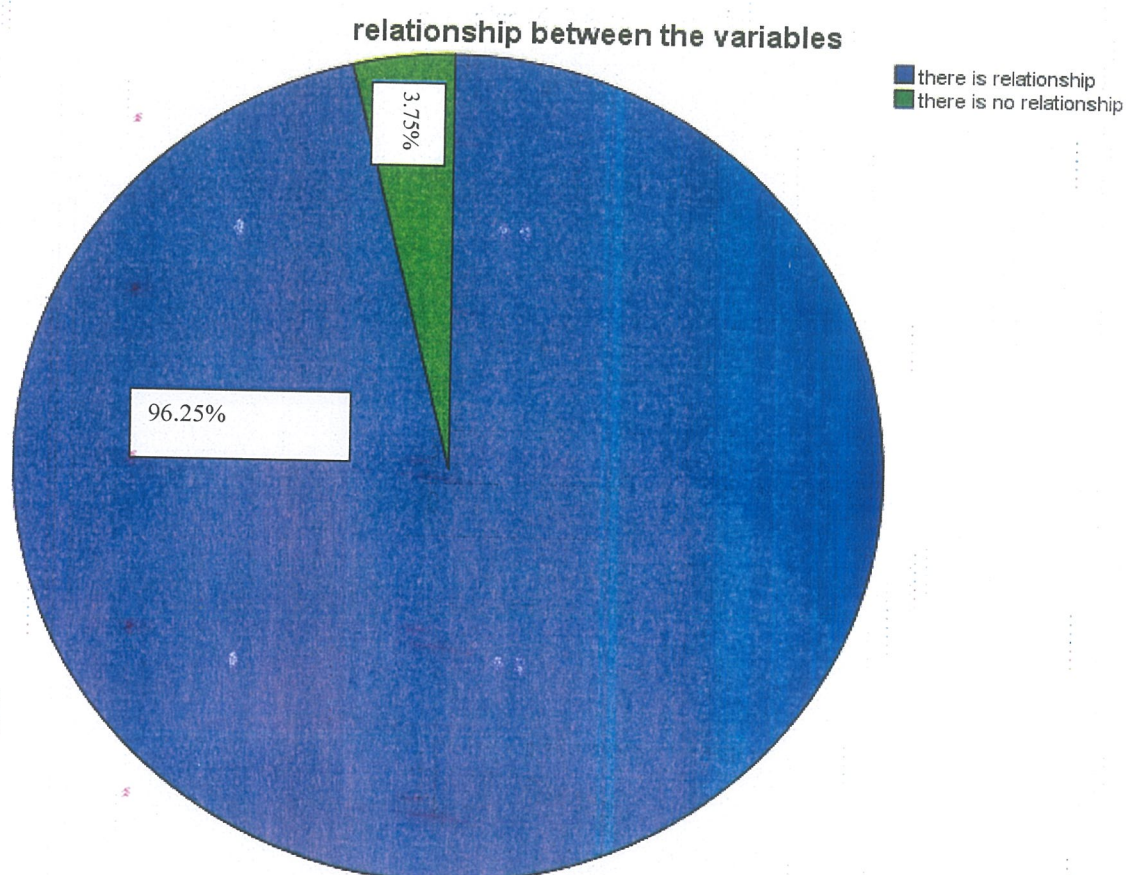
As illustrated in the Table 7 above, most of the study respondents 77 (94%) were able to indicate that there is a relationship between internal control and MFI Operations at Brac Microfinance and only 3 respondents taking 3.75% rejected the statement.. According to findings majority of respondents argued that the relationship existed hence responded yes to the examined question.

Meaning that an improvement in internal control leads to a better performance of the bank in microfinance institutions

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, conclusions, and recommendations drawn from the study findings of the previous chapter.

5.2 Discussion of the findings

5.2.1 Control activities and performance of microfinance institutions

The findings showed that 56.7% of the respondents agreed that Staffs are given up to date internal control manuals for reference purposes,53.5% agreed that Staff are aware of the penalties for breaking internal control procedures ,83.8 agreed that accounts are reconciled on monthly basis to detect errors and fraud,44.5% agreed that all payments are authorized by responsible officer before payment,85% also agreed that all payment procedures are followed for all transactions, 95.5% of the respondents accepted that the branch has an asset register which is updated regularly,81.7% agreed that all branch assets are corded and marked,80% of the respondents accepted that all departments have clear levels of authority and 81.1% agreed that there is an internal check which operates continuously as part of the system whereas 76.7% rejected that all financial transactions are recorded in vouchers for future references, also 83.3% of the respondents rejected that the bank branch is frequently audited, 64.4% rejected that the internal auditor works independently and also 88.4% of the respondents disagreed that All employees have clear duties and there is no conflict of duties.

5.2.3 Monitoring and evaluation and performance of Microfinance institutions

The findings show that 66.6% of the respondents agreed that monitoring strategies are used at any time during monitoring process,47% agreed that there is a reporting mechanism for all activities of this branch,53.5% of the respondents agreed that Internal audit is independent of management influence,83.8% of the respondents also agreed that external auditors can rely on the work of internal auditors when auditing and also 44.5% agreed that Segregation of duties or mitigating controls exist within transaction processing, authorization custody, and recording functions and also 85% agreed that Separation of duties exists between procurement, account payables and disbursements whereas 84% rejected that the branch's projects are monitored and reported as

required of their monitoring and evaluation criteria, 76.7% also disagreed that quality assurance is adhered to for all projects of the branch.

5.2.2 Risk assessment and performance Microfinance Institutions

The findings revealed that 95% of the respondents agreed that controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods,44.5% agreed that change of new staff is clearly examined for the risks it may cause,95.5% agreed that organizational restructuring brings limited risks to the branch,81.7% also agreed that new services posses less risks to the branch, agreed that communication channels are in place for changes in service delivery,83.8% of the respondents agreed that internal audit has appropriate controls for service delivery,44.5 of the respondents agreed that the branch has competent and knowledgeable personel,85% agreed that this branch is kin in identifying risk, whereas 88.4% of the respondents disagreed that there are mechanisms in place to identify and react to changes that can have dramatic effects on the branch,64.4% rejected that the reporting mechanism in place is less risky to the branch ,60.6 also rejected that all risks facing this branch are measured and also76.7% rejected that risks are assessed in relation to changes in the operational environment.

5.2.4 Relationship between internal control and performance of Microfinance institutions

The findings revealed that there was a significant positive relationship between internal controls and service delivery thus better performance of microfinance institutions evidenced by 96.25% of the responces from all the respondents. This is in line with the view that service delivery can be taken to be an outcome of performance (Ayen, 2002). According to Samuel (2002), service can be expressed in terms of capacity to deliver desired services from which customers get satisfaction. Through the internal controls, the desired employee's performance and service delivery is achieved in accordance with the set internal control objectives and as per guiding organizational policy (Groth (2005). James (2005) and Magala (2001) said that internal control helps to ensure that planned activities are achieved as per set objectives in terms of realizing the desired service delivery needed by the organizational policy. Cox (2000) said that internal control leads to efficiency in utilization of organization resources where by jobs are carried out as explained by their description, availability of equitable employees for work at all times, and equitable allocation of resources among others and hence, timely service delivery. Aderspan (2001) added that it avoids having idle staff in the organization thus ensuring constant provision of services.

5.3 Conclusions

5.3.1 Control activities and performance of microfinance institutions

The findings of the study indicated that control activities affect the performance of microfinance institutions to a bigger extent to a smaller extent it was found out that all financial transactions are not being recorded in vouchers for future references, Microfinance institutions are not frequently audited ,the internal auditor does not work independently to promote equity in performance and that All employees do not have clear duties .

5.3.2 Monitoring and evaluation and performance of Microfinance finance institutions

The findings revealed that most of the respondents were in agreement that Monitoring and evaluation critically boasts performance of Microfinance finance institutions. It was also revealed that the projects should are not monitored and reported as required of their monitoring and evaluation criteria in and Quality assurance is not adhered to for all projects of Microfinance institutions as this hinders successful.

5.3.3 Risk assessment and performance of Microfinance finance institutions

According to the study Risk assessment affects the successful implementation of of decisions and performance of the organization to a greater extent. The study also revealed that Mechanisms should are not put in place to identify and react to changes that can have dramatic effects on the performance of Microfinance institutions, methods should are not put in place to measure risks that affect the performance of the institutions and that all risks should are not assessed in relation to changes in the operational environment

This confirms the findings by Bazzolil (2000) that internal control ensures sound financial management which leads to the attainment of set goals. Thus, the weak internal controls in microfinance institutions could not ensure sound financial accountability and this hindered achievement of set goals and thus, service provision was inadequate to some extent.

5.4 Recommendations

Based on the findings and the relationships between the study variables the researcher came up with the following recommendations.

5.4.1 Control activities and performance of microfinance institutions

- All financial transactions should be recorded in vouchers for future references to ensure better accountability and performance in general.

- Microfinance institutions should frequently be audited in order to ensure efficiency in accountability.

-The internal auditor should work independently to promote equity in performance.

-All employees should have clear duties to avoid conflict of duties in order to improve on service delivery.

5.4.2 Monitoring and evaluation and performance of Microfinance finance institutions

-The projects should be monitored and reported as required of their monitoring and evaluation criteria in order to improve on the performance of Microfinance institutions.

-Quality assurance should be adhered to for all projects of Microfinance institutions in order to attain successful implementation thus better performance.

5.4.3. Risk assessment and performance of Microfinance finance institutions

- Mechanisms should be put in place to identify and react to changes that can have dramatic effects on the performance of Microfinance institutions.

-A less risky reporting mechanism should be put place to reduce on high risks that can affect the performance of Microfinance institutions negatively.

-Better methods should be put in place to measure risks that affect the performance of the institutions.

-All risks should be assessed in relation to changes in the operational environment

5.4.2 Relationship between internal control and performance of Microfinance finance institutions

The findings indicate internal controls as a significant predictor of service delivery. The researcher therefore recommends that to overcome hindrances to adherence to best practice in the sector there should be effective implementation of internal controls and hence effectiveness and efficiency in the organization's operations by microfinance Management through ;

-Reviewing their existing internal controls and strengthening them through policy implementation.

-Putting in place clear internal control systems to monitor proper compliance on internal controls.

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APPENDICES

APPPENDIX I: QUESTIONNAIRE

Dear Respondent,

I am Betty Nyiramfitukumiza, as part of my course at KIU, I am carrying out research on the topic: **Internal Control systems and performance of microfinance institutions.** As one of the target respondents, your views and opinions are very important to this study. I hereby request you to spare some time and you fill this questionnaire. The responses obtained will be confidential and strictly be used for academic purposes only.

Thank you for your co-operation.

Section A: Background Information.

1. Gender

   Male ☐   Female ☐

2. Age

   20-29 ☐   30-39 ☐   40-49 ☐   50 and above ☐

3 What is your current level of Education?

   O-level ☐   Certificate ☐   Diploma ☐   Degree ☐   A-level ☐

4 What is your current level of management in the organization?

   To management ☐   Middle management ☐

   Lower management ☐

Please tick according to the code provided below for the variables below:

Strongly Agree 5......Agree 4.....Not sure 3.....Disagree 2.....Strongly Disagree 1.....

Section B: Control activities and performance of microfinance institutions

Statement	1	2	3	4	5
Staff are given up to date internal control manuals for reference purposes					
Staff are aware of the penalties for breaking internal control procedures					
Accounts are reconciled on monthly basis to detect errors and fraud					
All payments are authorized by responsible officer before payment					

	1	2	3	4	5
All payment procedures are followed for all transactions					
All financial transactions are recorded in vouchers for future references					
This branch is frequently audited					
The branch has an asset register which is updated regularly					
All branch assets are corded and marked					
The internal auditor works independently					
All departments have clear levels of authority					
All employees have clear duties and there is no conflict of duties					
There is internal check which operates continuously as part of the system					

Section c: risk assessment and performance of microfinance institutions.

(iii) Risk Assessment	1	2	3	4	5
There are mechanisms in place to identify and react to changes that can have dramatic effects on the branch					
Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods					
Risks are assessed in relation to changes in the operational environment					
Change of new staff is clearly examined for the risks it may cause					
Organizational restructuring brings limited risks to the branch					
New services posses less risks to the branch					
The reporting mechanism in place is less risky to the branch					
Communication channels is in place for changes in service delivery					
Internal audit has appropriate controls for service delivery					
The branch has competent and knowledgeable personnel					
This branch is kin in identifying risks					
All risks facing this branch are measured					

Section D: Monitoring and Evaluation and performance of microfinance institutions

Statement	1	2	3	4	5
Monitoring strategies are used at any time during monitoring process					
This branch's projects are monitored and reported as required of their monitoring and evaluation criteria					
There is a reporting mechanism for all activities of this branch					

Quality assurance is adhered to for all projects of the branch					
Internal audit is independent of management influence					
External auditors can rely on the work of internal auditors when auditing					
Segregation of duties or mitigating controls exist within transaction processing, authorization custody, and recording functions					
Separation of duties exists between procurement, account payables and disbursements.					

Section E: Relationship between internal control system and Service Delivery/performance of the institution.

Statement	1	2	3	4	5
There is a positive relationship between internal control system and the performance of microfinance institutions.					
Customers' complaints are constructively handled due to internal controls					
A flexible service is provided to meet customers' individual needs					
Due to internal controls the branch has many customers					
Rate of returns are high per annum due to better internal control system					
Employees are remunerated timely due to a good internal control system					
Complete and accurate information is provided to customers in good time					
The full range of services is delivered to meet customers' changing needs					
Performance is affected by the submission of accountability returns.					
The organization has outcompeted others due to an effective internal control system.					
A report on actual budget release performance for both development and					
Customers' experience with this branch is excellent due to effective					
(ii) Service Satisfaction Delivery	1	2	3	4	5
employees are always available each time customers visit the branch					
customers always take little time to be attended to					
Customers are fully satisfied with services offered					
The quality of services given at the branch is always good					

What do you recommend that would improve service delivery at this branch?

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THANK YOU FOR YOUR COOPERATION.

APPENDIX II: Estimated budget;

Activity	Cost/amount(UGX)
Stationary, typing and printing	150,000
Internet bundles and air time	50,000
Transport	40,000
Others	30,000
Total amount	**270,000**

KAMPALA
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COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

JANUARY, 14TH 2019

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR NYIRAMFITUMUKIZA BETTY 1161-05014-04275

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.
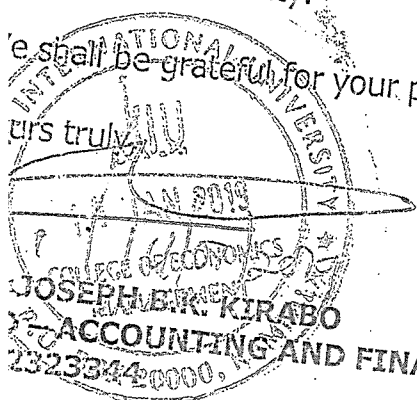
Topic: - INTERNAL CONTROL SYSTEMS AND PERFORMANCE OF MICRO FINANCE INSTITUTIONS

CASE STUDY: - BRAC MICRO FINANCE KABUSU BRANCH KAMPALA UGANDA

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly

JOSEPH B. K. KIRABO
ACCOUNTING AND FINANCE
23233442000,

BRAC MICRO FINANCE

P.O BOX 31817
Kabuusu Branch Lubaga Division

RAC MICRO FINANCE   **15th February, 2019**

.O BOX 31817,

abuusu Branch Lubaga Division

)ur Ref: CR /204/1

our Ref: ....

he Head of Accounting & Finance,

(ampala International University,

!O.BOX 20000,

(ampala, UGANDA

:CEPTANCE OF Mrs. NYIRAMFITUMUKIZA BETTY FOR FIELD RESEARCH
BRAC UGANDA MICRO FINANCE

is to acknowledge receipt of your letter dated 07th February, 2019 regarding the research information
:he above mentioned student.

purpose of this letter therefore, is to inform you that we have accepted her to carry out her research
1y in **BRAC microfinance.**

are also advised to avail the evaluation criteria to the work based supervisor to guide
student appropriately.

rs,

VEN LAWRENCE
MAN RESOURCE MANAGER
C MICRO FINANCE
UUSU BRANCH