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EFFECTS OF INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE IN COMMERCIAL BANKS:

(A CASE STUDY OF EQUITY BANK KABALAGALA BRANCH)

BY

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A RESEARCH REPORT SUBMITTED TO COLLEGE OF ECONOMICS AND, MANAGEMENT FOR PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELOR

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DECLARATION

I sserunjogi Fred declare that this Research proposal presented to the college of Business and Management of Kampala International University is my original work and has never been submitted to any institution of higher learning for any award.

Signature ....

REG. No.: 1153-05014-01461

DATE...26|9|2018...........................

APPROVAL

This Research Report has been done under my supervision as a University Supervisor and submitted to the College of Business and Management with my approval.

Supervisor

Mr Kasozi Geoffrey

Signature...

Date......26/09/2018.........................

DEDICATION

I dedicate this book to my beloved parents' Mr Sserunjogi Joram and Nakabba Magret, relatives friends and in-laws. Deep appreciation goes to all the lecturers of Kampala International University for their Godly devotion in teaching. Special regards are directed to my supervisor Mr Kasozi Goffrey for his tireless efforts in guiding me on research writing. The researcher would like to recognize the classmates for continuous support in group discussion on research work, and the entire community of Kampala international university.

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The researcher is indebted to many institutions and individuals. Special recognition goes to Kampala International University for offering me the opportunity and chance to pursue education in the first degree levels. Deep appreciation goes to all the lecturers of Kampala International University for their Godly devotion in teaching. Special regards are directed to my supervisor for his tireless efforts in guiding me on research writing. The researcher would like to recognize the classmates for continuous support in group discussion on research work.

LIST OF ABBREVIATIONS

ABA	-	American Bar Association
ACCA	-	Association of Chartered Certified Accountants
AICPA	-	American Institute of Certified Public Accountants
COSO	-	Committee of Sponsoring Organizations
CPD	-	Continuing Professional Development
ERP	-	Enterprise Resource Planning
ICPAU	-	Institute of Certified Public Accountants of Uganda
IFRS	-	International Financial Reporting Standards
IIA-UK	-	Institute of Internal Auditors- United Kingdom
K.I.U	-	Kampala International University
OAG	-	Office of Auditor General
SAS	-	Statement of Auditing Standards
SME	-	Small and Medium Size Entity
SOX	-	Sarbanes- Oxley Act

ABSTRACT

This study is a result of an academic research entitled "internal control systems and financial performance in commercial banks case study equity bank." , the objectives of the study were to find out the effect of Segmentation of duties on financial performance of commercial equity bank, to establish the effect of authorization on financial performance of commercial bank and to find out the effect of budgeting on financial performance of commercial bank descriptive date collection techniques was used. The researcher used a sample size of 150 respondents. The researcher used Statistical Package for social scientists (SPSS) to analyse data. From the study findings internal controls and performance of commercial banks are inseparable terms. The respondents and interviewees were quite aware on the influence of internal control systems on the performance of commercial banks such as equity Bank (U) Ltd. It was viewed that, internal control plays very important roles in the performance of equity Bank (U) Ltd were identified where 94% of the total respondents concurred with the fact and mentioned roles such as it ensured business of the entity was carried on in an efficient and orderly manner.

The conclusions were Internal control systems which relied entirely on segmentation of duties, plans of organization, budgeting, authorization and approval, rotation of employees, safeguarding of assets among others may be used to control frauds, embezzlement and accounting errors that is, it ensured proper and satisfactory cash management and hence good performance of equity Bank (U) Ltd.

On the above basis the researcher recommended that segmentation of duties should be adopted to eliminate or minimize the chances or consequences which are likely to happen as the result of failure to segment the duties in equity Bank (U) Ltd's to bring about good performance. On budgeting the researcher recommended that equity bank should establish authority and responsibility centres for every function to provide basis for the cost centre, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the financial year budget.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND

In this chapter, the researcher discussed the operational framework of how the research was carried out under the topic internal control systems and financial performance in commercial banks. A case study of Equity Bank kabalagala branch. The researcher also examined the background of the study, statement of the problem, specific objectives, and scope of the study, research questions, significance and justifications of the study.

1.1 Background to the study

1.1.1 Historical perspective

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. The sacking of Troy was a classic example of the failure of internal controls In the Republic of China, to Control the five branches of government, is an investigatory agency that monitors the other branches of government. Internal control systems, has been defined differently by different scholar some defined it as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (for example. how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures to reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) and the Sarbanes–Oxley Act which required improvements in internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls.

Fadzil et. al, (2015) said that an effective control system unequivocally correlates with organization success in meeting its revenue target level. Effective internal controls for revenue generation involves a regular review of the reliability and integrity of the financial and operating information, review of internal controls employed to safeguard assets, an assessment of employee's compliance with management policies, procedures and applicable laws and regulations, an evaluation of the effectiveness and efficiency with which management achieves its organizational objectives. Furthermore organizations are making a point of view to train, educate, and sensitize their employees on how to use these internal controls since its effectiveness depends on its competence and dependability of people using it. All these control actions ensure that any risks that may affect the company's ability to achieve its goals are appropriately avoided and should occur at all levels and all functions of the organization.

1.1.2 Theoretical perspective

This study was guided *by "The Agency theory "*

According to the agency theory a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen &Meckling). Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents. Furthermore, an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. A consequence of this assumption maybe the 'moral hazard' problem, indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals. This will be expounded later during the literature review in Chapter two (2) of the study.

This Theory was used because "Internal control is one of the main mechanisms used in business to address the agency problem" (Jensen and Payne 2013) and again "studies have shown that internal control reduces agency costs"

In the study, Internal control systems was construed to mean "a process effected by the entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories; reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. While financial performance was considered in terms of Internal controls on receipt and receipts posting, Internal controls on payment in bank, Internal controls on cash payment and Internal controls on balances both cash and banks.

According to Dixon et al, appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. On the other hand Stoner (2013), refers to performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats. For purposes of the study we adopted Ray and Kurt's definition of internal control systems. In as much as Internal control Systems are wide and numerous, for the sake of this study, Internal control systems were limited to; organization segmentation duties ,Authorization and approval ,Authorization and approval, Arithmetical and accounting ,Physical restrictions, Management, personnel, Supervision, Acknowledgement of performance and budgeting.

There are 3 major classifications of internal controls; preventive, detective and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omissions or malicious act from happening. The detective controls are used to detect and report the occurrence of an omission, an error or malicious act. Finally the corrective controls helping ensuring that the impact of a threat is minimised, identify the cause of problems well as the correct errors arising from the problem. Corrective controls correct the problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem.

1.1.3 Conceptual perspective

Internal controls as an Independent variable (as measured by the Control Environment, Internal Audit and the Control Activities) affects Financial Performance a dependent variable (as measured by Liquidity of an Entity, Financial Accountability and Financial Reporting). However, there were also moderating factors like Policies established by the Government, inflation and interest rates and many others.

The study appreciated internal Control systems as the formal, information-based routines and procedures managers ensure that errors and fraud are detected, safe guard company's assets and opine that ICS greatly affects Financial Performance a dependent variable, Stoner (2013), refers performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats (was measured by liquidity, accountability and reporting. According to Dixon appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

1.1.4 Contextual perspective

Equity Bank Uganda Limited was created in 2008 when the Equity Bank Group purchased **Uganda Microfinance Limited**, a Tier II, Ugandan microfinance company for an all-share price valued at US$27 million. Equity Bank (Uganda) launched under its new brand on March 30, 2009. As of December 2011, Equity Bank (Uganda) had a customer base of approximately 500,000 and employed over 550 people.

Equity Bank Uganda Limited is a member of the Equity Group Holdings Limited. As of March 2014, Equity Group Holdings Limited had an asset base valued at over US$3.45 billion (KES: 295 billion), with a total customer base in excess of 8.7 million, in the region. The stock of the Equity Group Holdings Limited is listed on the Nairobi Stock Exchange (NSE), where it trades under the symbol **EQTY**. It is also cross-listed on the Uganda Securities Exchange (USE), under the symbol: **EBL**. Members of the Equity Group Holdings Limited include the following companies. Housing - Nairobi, Kenya - A mortgage company: Equity Bank Group owns 25%, Equity Investment Bank - Nairobi, Kenya: Equity

Bank Group has 100% shareholding and Equity Insurance Company - Nairobi, Kenya: Equity Bank Group has 100% shareholding. John J. Morris. (2011) separates internal controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management was overriding control features in order to manage earnings, then one would expect to find more Internal Control Weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behaviour should be uncovered during the audit process since this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that "entity-level controls include controls over management override."

1.2 Problem statement

The growing saving culture among different categories and groups of investors led to the rapid growth of the banking sector and microfinance institution in Uganda. Such institutions include Equity Bank (U) Ltd, United Bank of Africa (UBA), Orient Bank Ltd, Housing Finance Bank, Bank of Baroda, and Tropical Bank among others. However, the tendency of losing finances in financial institutions through practices such as fraud, embezzlement, forgery and robbery among others, such as the case where the Bank Of Uganda entered into matters of acommercial bank Crane bank the present DFCU Bank to look in matters of misappropriating cash which further led to bankruptcy in November, 2017. According to this article, internal controls have be emphasised to be helpful in reducing on the fraud and misappropriation of cash through the use of the detective, preventive and collective controls.

Welsh amerchant (2014), appreciate that internal Control systems are the formal, information-based routines and procedures managers must use to ensure that errors and fraud are detected, safe guard company's assets and opine that ICS greatly affect financial performance. Given such background, that is why the researcher investigated the relationship between internal control systems and financial performance in. equity bank limited Uganda.

1.3 Purpose of the study

The purpose of this research was to establish the relationship between internal control systems and financial performance in Equity Bank (U) Ltd.

1.4 Specific objectives

To find out the effects of internal control system on the financial performance in Commercial Banks.

1.5 Objectives

1. To find out the effect of Segmentation of duties on financial performance of commercial bank.

2. To establish the effect of authorization on financial performance of commercial bank.

3. To find out the effect of budgeting on financial performance of commercial bank

4. To find out the major relationship between internal controls and financial performance in commercial banks.

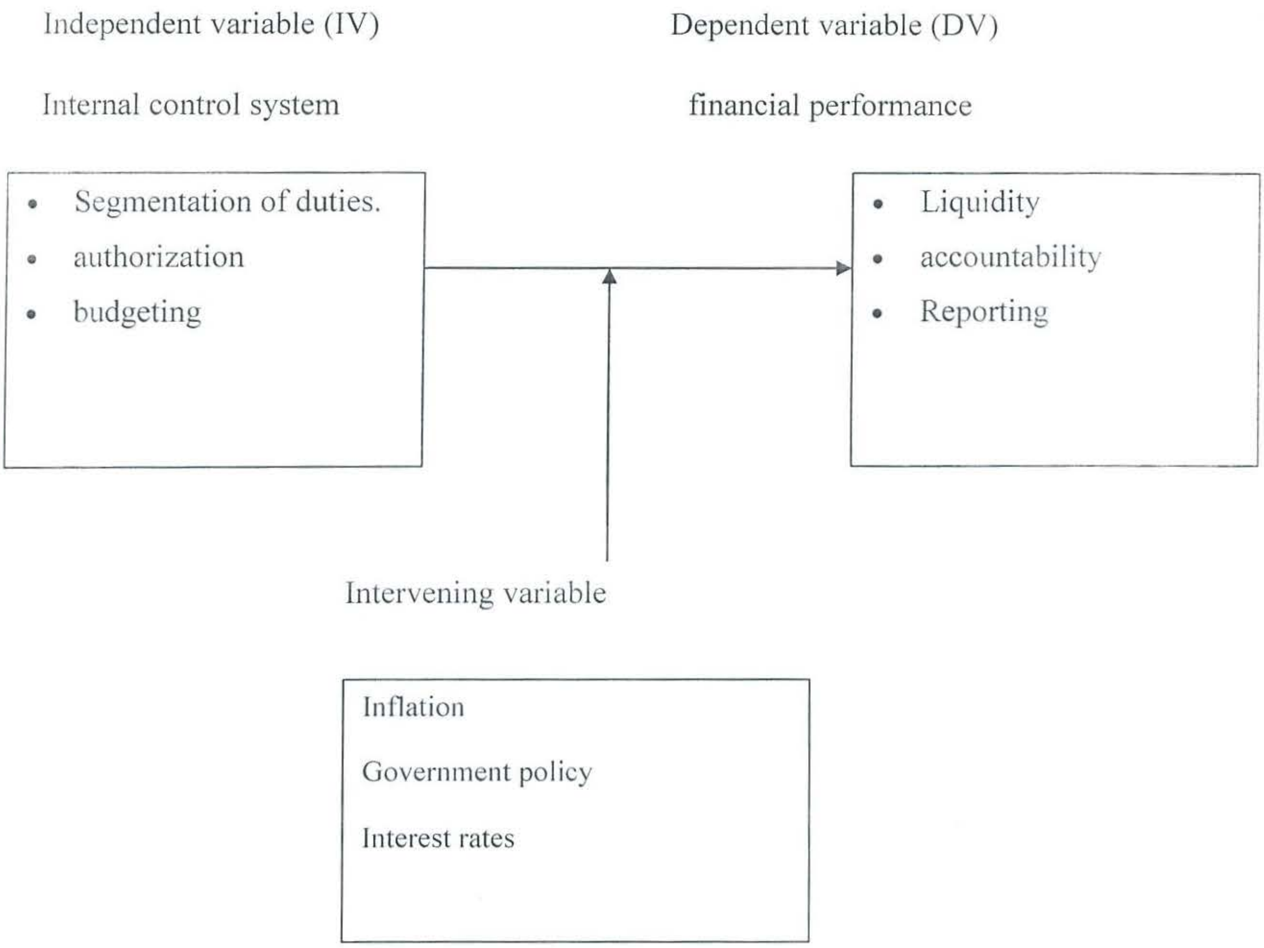
1.6 Research question

1: What are the effects of internal control system on financial performance in commercial banks?

2: What are the different forms of internal control systems used in commercial banks?

3: What is the relationship between internal control system and financial performance in commercial banks?

Figure1: Conceptual framework



Source : *Researcher 2018*

Figure1: Conceptual framework showing internal control system as an independent variable and performance as a dependent variable.

The above conceptual frame work represents the relationship between the independent and dependent variable. The independent variable was internal control system and the dependent variable was financial performance of commercial banks. The researcher realized that when there is proper internal control systems in equity Bank, there is proper management responsible for better performance of Equity Bank (U) Ltd, and maintains good record keeping, proper accountability, avoid falsification of financial records and good customer satisfaction will be efficient and effective. And when internal control systems are not well managed or are abused, then there is inefficiency in customer satisfaction, poor planning and poor record keeping together with forgery and fraud among others.

1.6 Scope of the study

1.6.1 Geographical scope

The study was carried out in Equity Bank (U) Ltd, Kabalagala Branch in kampala district found in the Central part of Uganda. The researcher also chose Kabalagala Branch due to its nearness to the researcher's residence and easy access to required information and this covered all staffs that have authority at the bank. The bank management using its workers was studied and the workers gave relevant information as a proof through answering questionnaires.

1.6.2 Time scope

The research study was carried out in a banking institution, Equity Bank (U) Ltd Kabalagala branch on the role of internal control systems on the performance of commercial Banks in Uganda and the research took a period of three months. That is to say from March to June 2018

1.6.3 Content scope

The study was limited to internal control systems on organization of segmentation duties, Authorization and approval and budgeting while organizational performance was limited to liquidity, accountability and reporting

Internal controls on receipt and receipts posting, Internal controls on payment in bank, Internal controls on cash payment and Internal controls on balances both cash and banks

1.7 Theoretical scope

Agency Theory describes firm as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. Accordingly, Barlie and Means post that in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal of employing an expert to monitor the agent.

1.8 Significance of the study

The research study adds to the existing stack of knowledge as regards to the effects of internal control systems on performance of commercial banks.

The research findings must guide future researchers on how they can collect data, analyse data, interpret and communicate to the relevant authority so as to help in policy making and formulation.

The decision makers must study findings for extracting policies and laws that must be followed by any banking institutions such as maximizing the objectives or reasons of its existence. The decision makers must be from within Equity Bank (U) Ltd or other banking institutions.

The proper internal control systems must lead to good record keeping, proper accountability, avoiding falsification of financial records and good customer satisfaction.

The study identified gaps and loopholes that exist between internal control systems and performance of commercial banks in Uganda such as fraudulent and corrupt officials and how they can be reduced. The research work also can enable the researcher to attain a certificate of Bachelors' degree in Business Administration.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, the researcher reviewed the literature related to the topic under investigation. That is the role of internal control systems on the performance of commercial banks (A case study of equity Bank (U) Ltd Kabalagala Branch.

The researcher examined the different types of internal control systems, the relationship between internal control systems (ICS) and performance, definition of concepts, the principles under which internal control systems work (Principles governing internal control systems).

2.1 Theoretical review

This study was guided by "The Agency Theory" as initially put across by Jensen &Meckling and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010).Gerrit & Mohammad theory also has connections with the Theory of firm articulated by NicolaiJ. Foss *et al.* According to the agency theory a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources Jensen &Meckling, Agency theory posts that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents.

Furthermore, an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. A consequence of this assumption was the 'moral hazard' problem Jensen &Meckling, indicating that in an effort to maximize their own wealth, agents faced the dilemma of acting against the interests of their principals. This was expounded later during the literature review in Chapter two (2) of the study.

2.2 Conceptual review.

There are many definitions of internal control as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation.

According to the committee of sponsoring organization (COSO) and William F. *et al* defined internal control system as the process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance recording the achievement of objectives in the following categories: Effectiveness and efficiency of operations; reliability of financial reporting; and compliance with laws and regulations.

"Internal control systems are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organizations' business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concern."This was defined by Awe, (2009).

Belverd E. Needles JR, control as all the policies and procedures management uses to protect a firm's assets and to ensure the accuracy and reliability of the accounting records. It also includes controls that deal with operating efficiency and adherence to management policies. In other words, management wants not only to safeguard assets and have reliable records but also to maintain an efficient operation that follows its policies. To this end, it established an internal control instructive that consists of three elements, the control environment, the accounting system and the centered procedures.

The Institute of Chartered Accountants of England and Wales (ICAEW), defined internal controls as "internal control means not only checker internal audit, but the whole system of control financial and otherwise, established by management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records".

The American Institute of Public Accountants (AIPA) defined internal control as the plan of organization and all the coordinate methods, and measures adopted within a business to safeguard its assets, check the accuracy and the reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. A system of internal control extends beyond those matters which relate directly to the function of the accounting and financial performance.

Kermit D. Larson and John J. Wild, defined internal control system as the policies and procedures that managers use to protect assets, ensure reliable accounting, promote efficient operation and urge adherence to company policies. Internal control system (ICS) applies to all assets owned by a business and to all phases of its operation so as to protect assets from fraud, theft, misuse and embezzlement.

Ray, defined control as the steps taken by a business to prevent employee fraud.

Ali, (2013) defined it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; securing compliance with organization policies and evaluation the level of performances in all divisions of the organizations.

Foster, defines internal control as the set of accounting and administrative controls and practices that help to ensure that approved and appropriate decisions are made in commercial banks.

Didnald A. Watne and Peter B.B Turney, Auditing EDP systems, defined internal control systems, as that which compresses the plan of organization and all of the methods and procedures adopted by a business to safe guard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Fabozzi, performance measurement involves the calculation of the return realized by money manager over some time interval which we call the evaluation period.

Kenny Thomas, (2005) defines performance as the way in which an activity was accomplished in a particular level or standard to which a task was achieved within a working environment. It also added that control comprises of those elements of an organization that was together to support people in the attainment of the objective of an organization.

From these definitions, it can be deduced that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal control objectives are channeled towards ensuring adherence to managerial policies and achieving organizational goals in general.

2.3. Internal control systems and performance

Wouldian W. Dyte and Kermit D. Larson (2012) states that internal control systems help in adherence to prescribed managerial policies. According to them as a business grows. It becomes difficult to maintain or manage person staff of the entity or organization. Therefore, at some point it becomes increasingly necessary to delegate responsibilities or power and internal control procedures rather than personal control in controlling the operations of the business organization.

National omission for fraudulent reporting came into emphasis that companies whose stock was publicly traded to maintain proper internal control system that provide reasonable assurance that the organization would perform to meet the aims and objectives, it was intended for. It is therefore evident that proper internal control system positively impacts the working environment and leads to achievement of the organizational reasons of existence by ensuring informal decision making or strategy planning.

"In his book accounting principles, cities an example of a computer operator who was reported in the financial press to have embezzled 21 million from Wales forgo Bank. Another cited example was the shipping clerk who was reported to have shipped merchandize worth dollar 125,000 having served or worked for 28 years. It was therefore, likely that ill equipped internal control systems encourage falsification of accounting records, corporation, fraud and embezzlement among other internal practices.

"Performance as a way in which an activity is accomplished in a particular level of standards to which a taste is to be accomplished. It is adopted, carried out or achieved within the working environment. Therefore the purpose of internal control system is to ensure that banks operate to some good standards and this increases profits in banks and many customers will be attracted due to the good standard of work. This improves performance and maintains dignity.

Vroom, Porter and Lawler, the philosophers of expectancy theory argue that the degree of effort an individual exert depend on his or her own perception of the effort performance when standard and criteria are not put in place in the banking industry using internal control system fraud and embezzlement will be high and ruins the banking activities and leading to its down fall.

Ray, Whittington & Walter B Mages, (2012), stressed the need for corporations or organizations to maintain adequate controls. This was emphasized after it was realized that the corporations sued illegal payment which was not in accordance with the American Standards of Business ethics.

2.4 Related review

Management established other controls over the entity transactions and assets. While there are many specific control procedures that may be implemented by a bank and they may be categorized as procedures.

2.5 Segmentation of Duties and financial performance

The University of California at Los Angeles notes that a segregation of duties is critical to effective internal control because it reduces the risk of mistakes and inappropriate actions. An effective system of internal control separates authoritative, accounting and custodial functions. For instance, one employee opens incoming mail a second employee prepares deposit slips for daily receipts, while a third employee deposits receipts in the bank. The previous example prevents the opportunity of one employee to misappropriate incoming funds. In addition, it's a fundamental concept of internal control which shows that there is no department or person handles all aspects of transaction from beginning to end. In a similar manner, no one of the functions of authorizing transactions, recording transactions and maintaining custody.

The authoritative *Principles of Corporate Governance* of the American Law Institute recommends that "every large publicly held corporation should have an audit committee that would review on a periodic basis. The corporation's internal controls According to Verschoor, approximately three-quarters of the 500 largest publicly held U.S. corporations voluntarily make a public assertion of management's responsibilities for properly reporting financial results and also maintaining an effective system of internal control. These management statements on internal control are contained in the company's annual report to shareholders. He asserts that; virtually all of these companies report using the same strategies to execute management's internal control responsibilities. These include references to segregation of functions, programs of selection and training of personnel, the results of an internal auditing function, and oversight from the audit committee.

2.6 Authorization and approval and financial performance

Ray (2012), Authorization of transactions, this is when management establishes criteria for acceptance of a certain type of transaction. For example top management may establish general prices lists and credit policies for new customers. Transaction with customers that meet these criteria can be approved by the credit department.

Philip E. Fees & Cauls S. Warren, says that control procedures or principles were those policies and procedures that management has put in place within the control environment in order to provide reasonable assurance that enterprises goals would be achieved.

A financial institution that provides services such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and Certificates of deposit. The traditional commercial bank and mortar Institutions with tellers, safe deposit boxes, Vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

General control procedures which can be integrated throughout the accounting system all therefore; Safeguarding assets is one essential characteristic of an effective system of internal control.

A system of internal control refers to the process by which organizations maintain environment that encourage incorruptibility and deter fraudulent activities by management and employees. An organization's components of internal control are evaluated during the planning phase of an independent financial statement audit. The results of the, evaluation directly influence the auditors level of detailed testing. To reduce detailed testing, and perhaps the audit fee, organizations implement common features of a proper internal control systems.

2.7 Budgeting and financial performance

Hitt, Hoskisson, Johnson, and Moesel argue that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls (budgeting) and financial controls. Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation. The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Hoskisson, Hitt, & Ireland).

On the other hand, financial controls entail objective criteria such as return on investment (ROI) in the evaluation of business-level managers' performance. They are similar to what Ouchi (2012) and Eisenhardt (2010) referred to as outcome controls. Thus, top-level managers establish financial targets for each business and measure the business-level managers' performance against those targets. Such an approach can be problematic when the degree of interdependence among business units is high. Thus, emphasis on financial controls requires each division's performance to be largely independent.

2.8 Management Integrity and financial performance.

Management integrity, or the moral character of persons of authority, sets the overall tone for the organization. Management integrity is communicated to employees through employee handbooks and procedural manuals. The management library indicates that in addition to communicating management integrity, policy manuals facilitate training to employee. However, management's enforcement of policies is the major indicator of an organization's commitment to successful internal control systems.

2.9 Competent Personnel and financial performance.

An organization's ability to recruit and retain competent personnel indicates management's intent to properly record accounting transactions. In addition, the retention of employees increases the comparability of financial records from year to year. Furthermore, an auditor's confidence in the underlying accounting records increases as he observes the reliability of the organization's personnel. This in turn reduces on auditor's assessment of the risk of a material misstatement in the entity's financial statements.

2.10 Proper Record Maintenance and financial performance.

Maintaining appropriate records ensures that proper documentation exists for each business transaction. Record management involves storing, safeguarding and eventually destroying tangible or electronic records. Also, appropriate back-up deters an employee on management from creating phantom transactions in the underlying accounting records. The environmental protection Agency emphasizes that a good record management program reduces operating costs. improves efficiency and minimizes the risks of litigation.

2.11 Proper Safeguarding of Assets and financial performance.

Safeguarding prevents unauthorized personnel from accessing valuable company assets. Safeguard are physical, such as locks on doors, or intangible, such as computer software passwords. Regardless of the methods, safeguards are a necessary feature of an organization's internal control system. Many business owners instinctively protect inventory cash and supplies. However, blank checks, company letterheads and signatures, stamps are items that require safeguarding that are commonly overlooked.

2.12 Internal Auditing Principles and financial performance.

Walter B. Mages, (2014), defines auditing as the searching and investigation of accounting records and other evidence supporting those financial statements. He emphasized that the objectives of internal control auditors were to monitor and improve the system of internal control. He adds that auditors should test and evaluate both accounting controls and administrative controls in all areas of the organization and prepare reports to management on their findings and recommendations.

2.13 Pre-numbered Document and financial performance

According to Robert F. Merges and Walter B. Merges, stress that important forms such as cheques, sales invoices, purchases orders, are usually serially pre-numbered and subsequently accounted for. This practice permits the discovery of wasting documents by detecting a break in the numbering scheme. An investigation can then commence to locate the source of the problem.

2.14 Separate Record Keeping and financial performance.

Kermit D. Larson and John T. Wild, emphasizes that the person who has access to or otherwise responsible to an asset should not maintain the accounting record for that asset. When This principle was followed, the custodian of an asset knowing that a record of asset was being kept by another person, was not likely to misplace, misappropriate or waste the asset, they also urge that the record keeper did not have to agree to commit a fraud (called collusion) so if The chart was not setup or was used incorrectly managers might never discover excessive expenses or inflated sales.

2.15 Insure asset and bond key employees.

An employee was bonded when a company purchases an insurance policy or a bond against losses from theft by that employee. Barbara Chiappetta, urges that good internal control means that assets were adequately insured against casualty and employee handling cash and negotiable instruments should be bonded so as to reduce the risk suffered from theft and to discourage theft because employees did not know that an independent bonding company involved when theft is insured.

2.16 Record of Cheques drawn

A memorandum record of the basic details of a cheque should be prepared at the time the cheque was drawn. The record may be a stub (the counter foil of a cheque) from which the cheque was detailed with the cheque forms each type or record should provide spaces for recording deposit and the current bank balance. This should be in addition to the mortification or remittance adverse which makes sure that proper credit is recorded in the amounts of the creditors.

2.17 Maintenance of Bank Accounts

Philip E. Fess and Cans Warren, urge that all cash received must be deposited in the bank and payment must be made by cheques drawn in the bank or from special cash funds. When such a system is strictly followed, there will be a double record of cash, one maintained by the business and the other bank.

2.18 Property Remuneration System and financial performance.

Robert W. Ingram and Thomas L. Albert, (2011), stresses that these ought to be proper remuneration system scheme for the skills rendered to the organization/entity/enterprises so as to close avenues or possibilities of falsification of the accounting records. These schemes should be clearly spelt out for the skills and efforts rendered by employees such as cashiers. accountants/auditors to the institutions or organization since they will be the ones who directly or indirectly deal with the firm's cash items.

Physical control over assets and records helps protect the company's assets. These control activities may include electronic or mechanical controls (such as a safe, employee ID cards, fences, cash registers, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.

2.19 Independent checks and proper valuation performance.

The accuracy of the work of various individuals in a bank was verified by independent checks on performance and valuation such as clerical checks. Computer program controls independent review reports and reconciliations. When the accounting and custodial departments are relating independently, the work of each department serves to verify the accuracy of the work of the other. Periodic comparison should be made of accounting records and the physical assets on hand. Investigation as to the cause of any discrepancies will uncover weakness either in procedures for safeguarding assets or in maintaining the related accounting records.

2.20 Various types of Internal Control Systems (ICS)

The concept of fraud; what is fraud? Fraud has been widely defined in literature by scholars and experts. Horn, 2008 defines Fraud as an action or an instance of checking somebody in order to make money or obtain goods illegally. The same dictionary defines the perpetrator of fraud as fraudsters. According to the ICAN study pack (2006a,b) Fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations, affecting the financial statements by the one or more individuals among management employees and third parties.

Archibong. (2012) describes Fraud as a predetermined and well planned tricky process or devices usually under taken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten advantages be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedures.

2.20.1 Preventive control:

Penne Ainswouth and Dan Deines (2004), in their book cited that preventive controls are those controls that predict potential problems before they occur and make adjustment. They also prevent an error, omission or malicious act from occurring. Examples of preventive controls includes; using well-designed documents to prevent errors, establishing suitable procedures for authorization of transactions and employing qualified personnel.

2.20.2 Detective control: David Marchal, describes detective internal control systems as those policies or systems that detect if any errors in the accounting procedures were committed. These could be exception types of reports that reveal that controls have been circumvented (enable a difficulty) for example, large amounts paid without being authorized. Other examples could include reconciliation, supervision and internal checks.

2.20.3 Corrective control: These type of internal controls helps to minimize the impact of a threat, identify the cause of a problem, and correct errors arising from the problem. They also correct problems discovered by detective controls and modify the processing systems to minimize future occurrence of the problem. Examples of corrective controls are: contingency planning back up procedures, return procedures.

2.21 Limitation of the Internal Control System

An effective internal control system can only over provide reasonable assurance than an agency's operating systems, financial controls, reporting and other agency processes are working effectively. No matter how well designed and operated internal control systems cannot provide absolute assurance that agency objectives have been, and will continue to be met.

Robert F. Mergs, Mary A. Mark Better and Ray Wittington, urged that although internal control system is highly effective in increasing the reliability of accounting data safeguarding assets, a complete protection against fraud, theft or errors. For example, control based upon sub-division of duties may be defeated at least temporarily by collusion among two or more employees, who are careless also may cause a break down in internal control system. The principle of reasonable assurance rests on the promise that the costs of establishing control procedures should not exceed their expected benefits.

Jerry T. Weygandt, Didnald E. Kieso and Paul D. Kimmel, (2004) accordingly emphasized that good system can become ineffective due to employees fraud including theft of assets, changing lower sales prices to favor customers, receiving "Kick Back" from suppliers, over stating hours worked, "adding" expense accounts and embezzlement.

According to Kathy Adams, (2011), internal controls provide a level of confidence in financial information reported on the financial statements. Internal control limits individual employee access to manipulating the data or misrepresenting the financial data. Internal controls are critical for accounting staff who work regularly with the company's financial data. However, internal controls are fool proofs. There are limits to internal control policies and procedures implemented by commercial banks. Some of these limitations include the following.

2.21.1. Lack of training/communication

Employees who do not understand the purpose of internal control or the proper procedure to follow can limit the effectiveness of internal controls. Management communicates the purpose of incorporating internal controls and assigns specific employees the responsibility of training the rest of the department. If management miss communicates the purpose of implementing internal controls, employees feel mistrusted, swamped with additional work and find opportunities to sidestep the internal control system. If the trainers do not train employees to use the new internal controls, the employees will create their own methods or ignore the system altogether.

2.22 Financial performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 2014).Hitt, *et al* (2012) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 2006) or overvaluation of managerial capability in the acquisition process.'

2.23. Measures of financial performance

According to Dixon *et al* (2014), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey&Meredith (2007) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Kent (2004) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Survival

According to Kotler (2012), strong performer firms are those that can stay in business for a good number of years. Dwivedi (2002) also found out that, the ability of a firm to survive in business in an indicator of good financial performance. Richardson, Sonny & Suzan (2004) found out that, 38 active British businesses went into liquidation in the third quarter of 2002 and in 2001 a total of 21,827 businesses failed compared to 15,051 in 2000. However in Uganda, about 90% of Ugandan SMEs collapse within 3 years Katuntu (2005). This is therefore an indicator of poor financial performance.

Liquidity

Hitt, *et al* (2014) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Bakibinga, (2011) also emphasized the importance of current ratio as a measure of an organization's liquidity. Other measures of Liquidity according to ACCA and Panday (2012) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

Accountability

According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

Reporting

Whittington &Pany (2008), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization"

They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter discussed the operation framework within which the factors of the research study were gathered. It covered sections on study design, area and population of the study, the nature and composition of respondents, instruments of data collection, sampling designs and data collection procedures.

The researcher identified, specify and discuss all the possible methods which was applied in carrying out the study. Both qualitative and quantitative techniques of data collection and analysis will be used since one research method cannot be able to yield an authentic report on the relationship between internal control system and the performance of commercial banks.

3.1. The Research design.

The case study is equity bank (U) Ltd, Kabalagala branch. This study was descriptive cross section survey. The objective of descriptive research is to portray a profile of persons, situations or events (Saunders et al, 2000). It is not possible to access all the information in all the commercial banks in Uganda. So the researcher will obtain the information from respondents based on equity bank (U) ltd, Kabalagala branch.

3.2. The Study population.

The study population was 500 people who include the providers and clients of equity banks (U) ltd. especially Kabalagala branch since the researcher was able to travel to the field to collect data. The equity bank (U) ltd, staff and non-staff was able to help the researcher to have a clear view and balanced understanding offered by the bank and therefore, the researcher was able to access the role of internal control on the performance of commercial banks.

3.3. Sample design.

This was a technique of data collection which the researcher applied in drawing inferences based on the information which was collected about the target population. Under sample design, the researcher collected data by using purposive random sampling, with the collection of data from a sample units (purposive/judge mental sample) that was selected from the target population with the intention that they represent the population.

3.4. Sampling procedures

The sampling methods involve purposive random sampling since it's extensively used in the exploratory research stage and is very valuable in the making of a final questionnaire. This method also takes care of non-responses and accurate information will be obtained perfectly. Consequently, it gives the random size equal chance of participating and being selected.

3.5. Sample size

The sample of small proportion of a target population selected for comprehensive analysis to represent the whole population. Equity bank (U) Ltd, Kabalagala branch has a population of 500 people under study and the study considered the sample of 150 respondents. 5 respondents' bank managers of Equity bank (U) Ltd. Kabalagala branch, 10 accountants, 15 cashiers, 20 cleaners, 20 loan officers, 50 security guards and 30 respondents will be customers to the bank.

Table 1 : Showing population and sample size of respondents

Respondents	population	Sample size
Managers	10	5
Accountants	20	10
Cashier	50	15
Loan officer	50	20
Customers	100	30
Security	200	50
Cleaners	70	20
Total	**500**	**150**

The sample size was determined using Slovan's (1960) formula which is as follows;

Sample size $n = \frac{N}{1+N (e) 2}$

Where: n = sample size

N =population

e =0.07

n=500/(1+(500 (0.07)^2))

n=150

The researcher used purpose random sampling and as earlier stated out of the most 159 targeted respondents; the real number of respondents was 150 as shown in *Table* 1 above.

3.6. Data collection instruments

The researcher used both qualitative and quantitative techniques of data collection as; questionnaires and documentary review of data collection. These instruments ensure maximum credibility and validity of data which was collected and help in organizing it into meaningful information regarding the subject of the study.

3.6.1. Questionnaires

The questionnaires were self-administered to individuals who are respondents. The questionnaires include both structured and non-structured questions. The respondents were approached and given questionnaires which they fill with answers of different views.

The researcher employed this instrument since it cover a large number of respondents relatively at a short period of time. Besides, questionnaires allow the respondents to give free and independent opinions because they are not affected by the presence of the researcher as well; respondents were expected to answer even sensitive questions since they cannot be identified by their names.

3.6.2. Interviews

The researcher involved interpersonal talk with different respondents in order to obtain resourceful information about the roles of internal control on performance of commercial banks. The researcher employed this method because interviews were easily administered. For instance, they do not require the respondents to have ability to read, write and handle complex documents or long questionnaires.

It creates a right type of friendly atmosphere which were conclusive for obtaining desired information. It's often perceived as a cooperative venture because personal contact gives emphasis.

Flexibility identified in the nature of the interviews enabled researcher to adjust the interviews to meet many diverse situations for example, language barrier, physical abilities and others.

It has control overtime data and venue because an interview was held at the certain time, for example, after evening news or Sundays after service, arrangement was made to allow discussions of the meaningful questions to eliminate ambiguity, provide an opportunity of correcting misunderstandings by the researcher and the respondents, who were not common with forms of data collection. Interview was a strong assurance and guarantee to the interviewee that the fact will be properly used and safeguarded.

3.6.3. Observation

This was conducted during the time of interview to observe state of workers and the real role in order to come with the report.

The researcher used this method because it employs relatively less complicated and less time consuming procedures of the section.

It show collection of wide range of information even when this information is thought to be at the time of study, relevant and is also not relatively expensive.

It provides first-hand information which is more valid than reported information obtained from questionnaires and interviews.

3.6.4. Documentary review

In this, the researcher made research by carefully studying written documents or visual information from different libraries review literature, related to the study basing on the objectives of the study. The data collection instruments will have the following importance, related data will give direction when setting questionnaires, interviews and readers of this study who became suspicious of the data findings will always refer to the literature review especially in chapter two. This is basis for further studies in the same field by acting as a reference book.

3.7. Data sources

The source of data collected was both primary and secondary. These included the following.''

3.7.1. Primary data

This is the first hand information that was collected from the field by the aid of techniques like interview guide, questionnaires, observation and references to the secondary data.

3.7.2. Secondary data

Under secondary data information was extracted from the text books and work of other scholars whether published magazines, written data source including published and un published document agency reports, newspaper articles, internet sources, proposal books, Local Government acts among others so as to obtain relevant information.

3.8 Data analysis

A data analysis show how data was analysed according to objective by objective. Data was collected, edited and analysed using Statistical Package for Social Scientists (SPSS). Analysis output included; Descriptive statistics (means, frequencies, percentages and factor analysis), for objective question 1 and 2 and inferential statistics (correlations, and regressions) for objective question 3.The interpretations are as follows for objective 2.

3.9 Reliability and Validity

The reliability ensured by testing the instruments for the reliability of values (Alpha values) as recommended by Cronbatch, (2006). Cronbatch recommends analysis for Alpha values for each variable under study. According to Sekaran 2001 Alpha values for each variable understudy should not be less than 0.70 for the statements in the Instruments to be deemed reliable. Consequently The validity of the data collection instruments was done with the help of an Expert (the Researcher's Supervisor) to edit the questionnaire and the Interview guide. The Researcher forwarded the structured Questionnaire to Supervisor who is an expert in the area covered by the research for editing and reviewing.

3.10 Ethical consideration

Ethical considerations were taken into consideration by first seeking authorization from top management of the equity. Questionnaires were structured in such a way that there will be no mention of the Interviewee's name. A statement as to the strict confidentiality with which data held was expressly stated in the questionnaire. Further, responding was optional, basically explaining the reason for replacing respondents who didn't respond as mentioned in the "Sample Size and Sample Selection techniques" above. Ethical considerations were also taken care of by the researcher briefing the respondents on the purpose of the research, their relevance in the research process, and expectations from them

3.11 Limitation of the study

The researcher finished the research successfully; however, the researcher faced with the following challenges in the course of the study.

The time given to the researcher to complete the research was too short since the maximum time for completing research report was only three months which gave no room for detailed study about internal control and performance of commercial banks in Uganda.

The researcher being a student faced with a problem of inadequate funds/ money since a lot of funds/money was needed to pay for stationery, transport expenses, typing and printing, binding, photocopying and necessary obligations at the university.

Some respondents were not able to disclose off the secrets of the organization thinking that the information will be used for other purposes other than academics.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the findings in relation to the research questions and research objectives established earlier. The chapter presents the findings by considering the research purpose which was to establish the relationship between internal controls and financial performance in equity bank kabalagala branch in Uganda. The data collected from the field was processed, analyzed interpreted and presented quantitatively and qualitatively by using tables and percentages to show the responses of the respondents. All of these findings were interpreted and presented, through re-examining research objectives.

Variance in the targeted and actual respondents

The researcher targeted a total of 159 respondents, selected in finance and other related departments of the equity bank targeting particularly Finance Managers, Accountants , Cashier, Loan officer, customers,. Security and cleaners Nonetheless, not all the targeted sample responded; the actual sample responses were 150 out of the targeted 159, hence, a response rate of 94%.

4.1 Demographic characteristics

The main purpose of this part was to analyze the background information of the respondents in relation to their age, gender (sex), marital status and level of education. The information was presented by the use of tabulation as below.

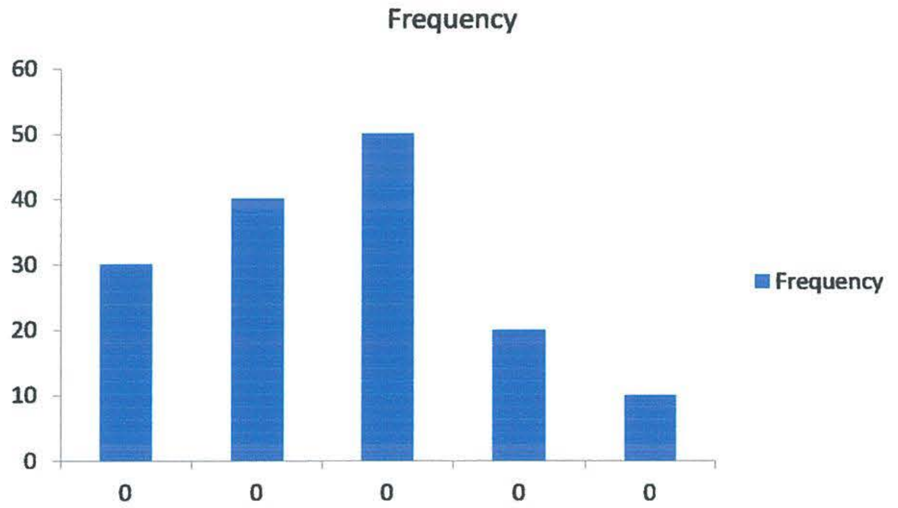
Table 2 : shows the age of the respondents

Age (years)	Frequency	Percentage (%)
18 – 24	30	20
25 – 30	40	27
31 – 36	50	33
37 – 42	20	13
Above 43	10	7
Total	**150**	**100**

Source: Primary Data

According to the table above, the data revealed that the majority of the respondents were aged between 31 years to 36 years, who made the total of 33% of the respondents. Other age groups individually comprised of 27%, 20% 13% and 7% who in total made a total of 100%.

Figure 1 , A bar graph showing the age of the respondents



Source: Primary data

According to the graph above, the data revealed that the majority of the respondents were aged between 31 years to 36 years, who made the total of

33% of the respondents. Other age groups individuals comprised of 27% in age of 25-30,20% in age of 18-24,13% in the age of 37-42 and 7% above 43 years totaling to 100%.

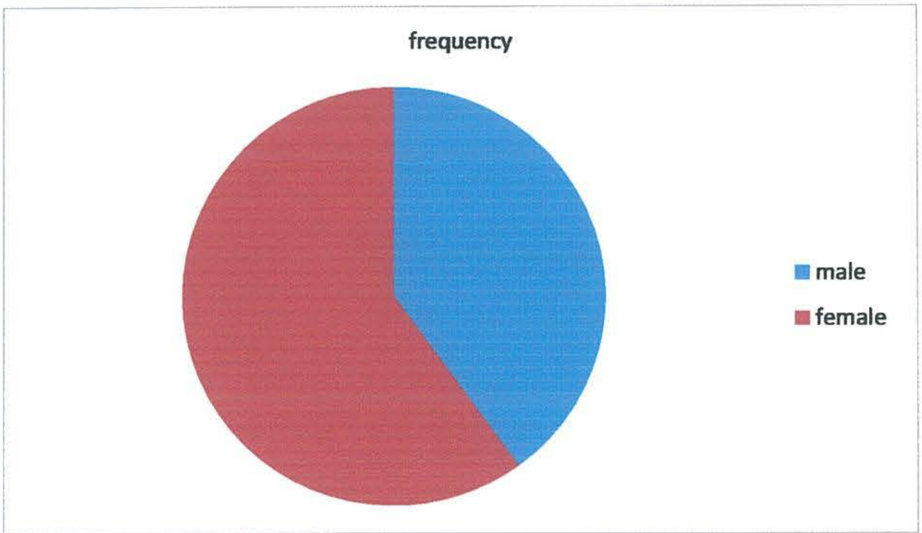
Table 3 : Shows the gender of the respondents

Gender	Frequency	Percentage (%)
Male	60	40
Female	90	60
Total	**150**	**100**

Source: Primary Data

Table 2: Shows the gender ratio of the respondents. The table reveals that out of 150 respondents, who were randomly selected to answer the questionnaires, 60 of them were males and 90 of them were females. This shows that 40% of the respondents on the questionnaires were male while 60% of the respondents were females. This means that Equity bank is composed of more females than males.

Figure 2 : pie chart showing the percentage gender of respondents



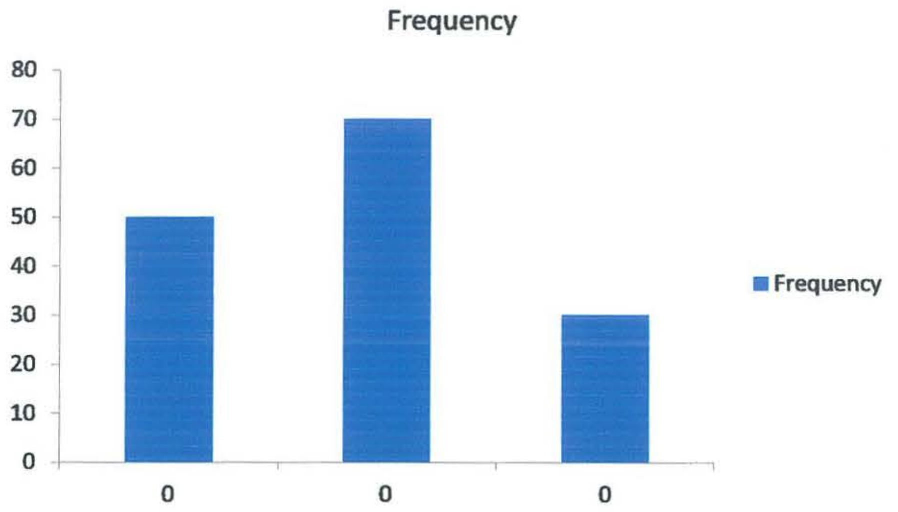
The pie chart above reveals that out of 150 respondents, who were randomly selected to answer the questionnaires, 60 of them were males and 90 of them were females.

Table 4 : Shows the marital status of the respondents

Marital status	Frequency	Percentage (%)
Single	50	33
Married	70	47
Divorced	30	20
Total	**150**	**100**

The table above reveals the marital status of the respondents of the questionnaires. Out of the 150 respondents, fifty (50) were singles, seventy (70) were married and thirty (30) were divorced. In terms of percentage, the respondents may be represented by 33%, 47% and 20% respectively. This shows that Equity bank has more married workers shown with aresponse of 70,47%.

Figure 5 : A bar graph showing marital status of the respondents



Source: Primary Data

The bar graph above shows the marital status of the respondents of the questionnaires. Out of the 150 respondents, 50 (33%) were singles, 70 (47%) were married and 30 (20%) were divorced.

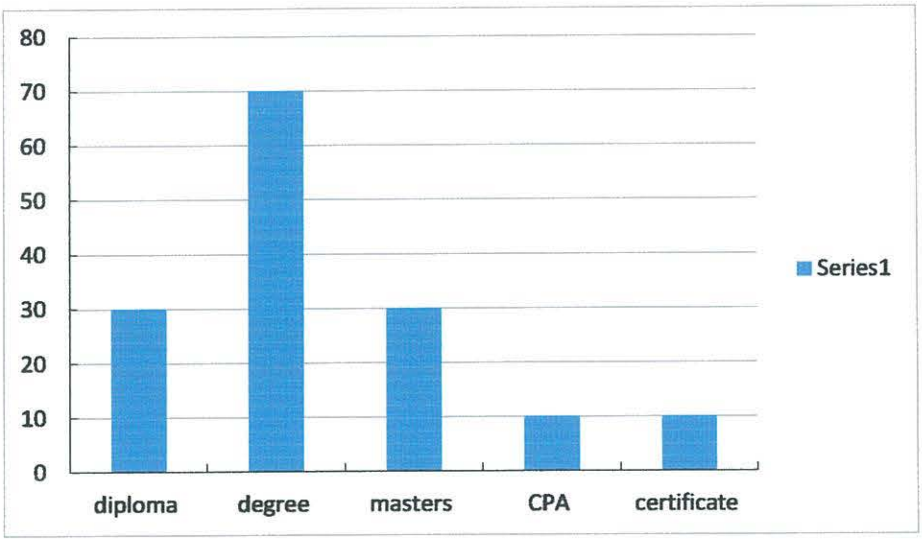
Table 5 : shows the level of education of the respondents

Education level	Frequency	Percentage (%)
Certificate	10	7
Diploma	30	20
Degree	70	47
Masters	30	20
Other professional course (CPA)	10	6
Total	**150**	**100**

Source: Primary Data

The above table describes the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 7% certificates, 20% possess diplomas, 47% have degrees qualification, 20% have masters and 6% possess other profesional courses such as CPA. Degree holders in Equity Bank are many at a 70,47%.

Figure 3 : A bar graph showing the education levels of the respondents



Source: primary Data

The above bar graph shows the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 7% certificates, 20% possess diplomas. 47% have degrees qualification, 20% have masters and 6% possess other professional courses such as CPA.

4.2 Effect of Segmentation of duties on financial performance of commercial bank.

Table: 6 showing the responses of respondents on effect of Segmentation of duties on financial performance of commercial bank.

	N	Mean	Std. Deviation	Interpretation
Our institution has clear separation of roles	150	2.3450	.80574	Low
Our governing council and its committees are independent of Management.	150	2.2850	.78540	Low
Management closely monitors implementation of Internal control systems in our institution.	150	1.7050	.54724	Very low
Management closely monitors implementation of Internal control systems in our institution.	150	2.3500	.99622	Low
Management provides feedback to the junior officers about the Operation of the system	150	2.3550	.98684	Low
Our Institution has a well-developed Chart of Account.	150	2.3650	.70303	Low
Management acts with a great degree of integrity in execution of their roles	150	2.4750	.90746	Low
Ethical values are upheld in all management decisions.	150	2.2900	.68428	Low
Our Institution has an objective, independent and active audit Committee.	150	2.3600	1.07992	Low
Total	**150**	**2.28**	**.832**	**Low**

Source: primary data 2018

From the study to find out the effect of segmentation of duties on financial performance of commercial banks, respondents were asked whether the institution has clear separation of roles on this respondents agreed with a low mean response of 2.34 and a standard deviation of .805 respectively this implies that the institution has clear separation of roles. Whether the governing council and its committees are independent of Management on this respondents responded with low mean response of 2.285 and there was a deviation of .785 respectively, the study findings on whether management closely monitors implementation of Internal control systems in our institution, respondents responded with a very low mean response of 1.70 with a deviation of .547 , this implies that Management of Equity Bank closely monitors implementation of Internal control systems in our institution. In the study to find out whether Management provides feedback to the junior officers about the Operation of the system, on this respondents responded with a low mean response of 2.35 and a standard deviation of .9864, this is an indication that Management of Equity Bank provides feedback to the junior officers about the Operation of the system, on whether the institution has a well-developed Chart of Account respondents responded with a low mean response of 2.36 and standard deviation of .703 this implies that Equity bank Institution has a well-developed Chart of Account and this enhances financial performance of Equity Bank. On whether Management acts with a great degree of integrity in execution of their roles on this respondents responded with a low mean response of 2.47 and standard deviation of .907 respectively, on whether ethical values are upheld in all management decisions. on this respondents responded with a low mean response of 2.29 and a standard deviation of .684 and finally on whether the institution has an objective, independent and active audit Committee on this respondents responded with a low mean response of 2.36 and standard deviation of 1.079 respectively, in general on the effect of Segmentation of duties on financial performance of commercial bank, respondents responded with a low mean total of 2.28 and standard deviation of .832 implying Segmentation of duties has an effect on financial performance of Equity Bank.

4.3 Effect of authorization on financial performance of commercial bank.

Table:7 showing the responses of respondents on the effect of authorization on financial performance of commercial bank.

	N	Mean	Std. Deviation	Interpretation
Internal auditor makes appropriate recommendations for Management to improve.	150	2.3450	.80574	Low
It is impossible for one staff to have access to all valuable Information without the consent of senior staff.	150	2.7950	.68213	Moderate
There is appropriate supervision by senior staff on the work of their juniors.	150	2.7800	.93055	Moderate
Every employee's work check on the others.	150	2.8750	.78898	Moderate
There is Preventive control in equity bank.	150	2.3350	.51390	Low
There is detective control in equity bank.	150	2.6600	.81098	Moderate
There is Corrective control in equity bank.	150	2.4750	.90746	Low
Receipts are verified before posting and other documents.	150	2.2900	.68428	Low
Approvals are done before cash is given out.	150	2.3600	1.07992	Low
Total	**150**	**2.54**	**.8000**	**Low**

Source: primary data 2018

In the study to find out the effect of authorization on financial performance of commercial bank, respondents were asked whether internal auditor makes appropriate recommendations for Management to improve on this respondents responded with a low mean response of 2.34 and standard deviation of .805, on whether it is impossible for one staff to have access to all valuable Information without the consent of senior staff, on this respondents responded with a moderate response of 2.79 and standard deviation of .682 this implies that respondents responded on average and on whether there is appropriate supervision by senior staff on the work of their juniors on this still respondents responded with a moderate mean of 2.78 and a standard deviation of .788 also on whether every employee's work check on the others on this further still respondents responded with a moderate mean of 2.87 and standard deviation of .513, on whether there is Preventive control in equity bank on this respondents responded with a low mean response of 2.33 and a standard deviation of .513 implying at Equity bank there is Preventive control on whether there is detective control in equity bank on this respondents responded with a moderate response of 2.66 and standard deviation of .810 and on whether receipts are verified before posting and other documents on this respondents responded with a low mean response of 2.90 and standard deviation of .684 respectively implying at Equity bank Receipts are verified before posting and other documents this general respondents responded with a total low mean response of2.54 and standard deviation of .800 implying authorization a diverse effect on financial performance of commercial bank.

4.4 Effect of budgeting on financial performance of commercial bank

Table: 8 showing the responses of respondents on the effect of budgeting on financial performance of commercial bank.

	N	Mean	Std. Deviation	Interpretation
We have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given.	150	2.8750	.78898	Moderate
Financial budgeting is done annually.	150	2.3350	.51390	Low
Our budget shows actual expenditure incurred.	150	2.6600	.81098	Moderate
Our budget shows actual revenue generated.	150	2.7950	.68213	Moderate
Management make decision basing on financial report.	150	2.7800	.93055	Moderate
Our financial report shows our corporate responsibilities to the communities and its surrounding.	150	2.8750	.78898	Moderate
There is Proper Record Maintenance in equity bank.	150	2.3350	.51390	Low
Taxes are catered in the budget.	150	2.6600	.81098	Moderate
There is Proper Safeguarding of Assets in equity bank	150	2.7950	.68213	Moderate
Total	**150**	**2.67**	**.724**	**Low**

Source: primary data 2018

In the study to find out the effects of budgeting on financial performance of commercial bank, respondents were asked based on the following, whether Equity Bank has budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the Variances given on these respondents responded with a moderate response of 2.87 and standard deviation of .788, on whether financial budgeting is done annually on this respondents responded with a low mean response of 2.33 and standard deviation of .513, on whether Equity bank's budget shows actual expenditure incurred on this respondents responded with a moderate mean response of 2.66 and standard deviation of .810 this implies that indeed Equity Bank's budget shows actual expenditure incurred, on inquiring whether financial report shows the corporate responsibilities to the communities and its surrounding on this respondents responded with a moderate response of 2.87 and standard deviation of .788 implying financial report generated by Equity Bank accounting department shows the corporate responsibilities to the communities and its surrounding in general in the study to find out the effect of budgeting on financial performance of commercial bank respondents responded with a total mean low response of 2.67 and standard deviation of .724 this implies that indeed budgeting has an effect on financial performance of commercial bank

4.5: Relationship between internal controls and financial performance in commercial banks.

Table 5. Relationship between internal controls and financial performance in commercial banks.

		Internal control	Financial performance
Internal control	Pearson Correlation	1	.838**
	Sig. (2-tailed)		<0.001
	N	150	150
Financial performance	Pearson Correlation	.838**	1
	Sig. (2-tailed)	<0.001	
	N	150	150

Correlation is significant at the 0.01 level (2-tailed).

From the findings, there is a strong positive relationship between internal controls and financial performance in commercial banks at Pearson correlation coefficient at 0.838. This implies that for every kind of credit control measure adopted by Equity Commercial Bank (U) Ltd. there is an increase on the level of financial performance.

4.6 INTERPRETATION OF FINDINGS

4.6.1 Some of the internal control procedures for the types of internal control systems

Internal control over cash

All cash and cheques received are recorded immediately and accurately usually using serially numbered books.

There are different people responsible for selling the bank's property, making authorization, and receiving cash and payments.

Adequate security exists over all cash/near cash holdings and over all transactions of cash. (to the bank, from the bank, to payment sites for wages among others).

Daily reconciliation statements are prepared regarding cash and cheques received, banked and balance in hand. Any discrepancies are investigated immediately and the culprits are immediately brought to book.

4.6.2 Problems that have been faced in the course of implementation of internal control systems in equity Bank (U) Ltd.

No internal control systems, however elaborate, can by itself guarantee efficient administration and completeness and accuracy to the records nor can it be proof against fraudulent collusion, especially on the part of those holding positions of authority and trust. This implies that there are certain factors that could undermine the effective operation of an internal control system, some of which could be outside the control of management.

- Management has to ensure that the benefits expected from an internal control system outweigh the costs. As a result, certain important controls like computerization of all activities within and outside the bank has not fully been put in place because it is very expensive.
- Most internal control in equity Bank (U) Ltd are directed towards routine transactions like deposit of cash and cheques, payment in cash and non-routine

transactions like disposal of the bank's assets. This leaves gaps that are exploited by individuals in charge if disposals of the bank's assets.

- Human errors due to carelessness, distraction, mistakes of judgment and misunderstanding instructions undermine the effectiveness of the internal control system in equity Bank (U) Ltd.
- A number of management or employees circumvent controls through collusion with persons outside or inside the bank. For example, where duties are segregated, the employees collude to perpetuate and conceal a fraud. For example, security agents and cash transport agents colluded and stole one billion shillings but because of the swift respond by the security agents, the culprits were all arrested and charged with armed robbery. Such collusion renders segregation of duties ineffective.

4.6.3 What the management of equity Bank (U) Ltd are doing to minimize the problems of internal control system.

4.6.3.1 Control over disbursement of cash

Most of the disbursements of equity Bank (U) Ltd were made by cheques while minor payments were made through the petty cash fund. The payment was done after all necessary processes, authorization and approval have been performed. Equity Bank (U) Ltd has three signatories who are authorized and approved to sign authorization. These include the managing director, director of finance and chief accountant. However, small amounts of less than fifty thousand (50,000/=) may be signed by the chief accountant and chief cashier for petty cash only. However, all these and other transactions are monitored and reviewed by the director of finance and planning and executive director, on monthly bases.

4.6.3.2 Vote book

This is the column sheet bund together in the form of the book or register is used by equity Bank (U) Ltd to record all expenditures including commitments. The book contains the current unspent and uncommitted balances of each item, serial number, the data, amount and the payee of each voucher paid or forwarded to be paid.

4.6.3.3 Control over paid documents

The entire paid up documents are stamped "paid" to show that the payment was made. All the cancelled documents are written "cancelled" and are not thrown away rather they are kept together for easy reference and trace for auditing purposes.

4.6.3.4 Internal control over cash

Equity Bank (U) Ltd is exercising a certain level of control over its cash; the systems available are in terms of accounting and administrative control. Accounting control includes making use of supporting documents, bank reconciliation and the use of budgetary control. While administrative control includes strictly prohibiting access of the cashier office

4.6.3.5 Physical control

The physical control over cash of equity Bank (U) Ltd comprises of safes, cash boxes and strong room and more over the custody of documents and records. The equity Bank (U) Ltd financial regulation suggests that all valuable documents such as the Bank Seal, contracts agreements, motor vehicle registration cards, and share certificates, title deeds, among others, shall be kept in safe custody (under lock and key) by the managing director.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussions and findings from the previous chapters. It was on the basis of chapter four with reference to research objectives and the aid of literature review where the conclusions and recommendations were made. The objectives of this study were to find out ; the effect of internal control systems on financial performance, effect of segmentation of duties on financial performance, effect of authorization and approval on financial performance, and effect of budgeting on financial performance in equity bank (U) Ltd.

5.1 Summary

Effect of Segmentation of duties on financial performance of commercial bank.

From the study findings on the effect of segmentation of duties on financial performance of commercial banks, respondents were asked whether the institution has clear separation of roles on this respondents agreed with a low mean response of 2.34 and a standard deviation of .805 respectively this implies that the institution has clear separation of roles. Whether the governing council and its committees are independent of Management on this respondents responded with low mean response of 2.285 and there was a deviation of .785 respectively, the study findings on whether management closely monitors implementation of Internal control systems in our institution, respondents responded with a very low mean response of 1.70 with a deviation of .547 , this implies that Management of Equity Bank closely monitors implementation of Internal control systems in our institution., in general on the effect of Segmentation of duties on financial performance of commercial bank, respondents responded with a low mean total of 2.28 and standard deviation of .832 implying Segmentation of duties has an effect on financial performance of Equity Bank.

Effect of authorization on financial performance of commercial bank.

From the study findings on effect of authorization on financial performance of commercial bank, respondents were asked whether internal auditor makes appropriate recommendations for Management to improve on this respondents responded with a low mean response of 2.34 and standard deviation of .805, on whether it is impossible for one staff to have access to all valuable Information without the consent of senior staff, on this respondents responded with a moderate response of 2.79 and standard deviation of .682 this implies that respondents responded on average and on whether there is appropriate supervision by senior staff on the work of their juniors on this still respondents responded with a moderate mean of 2.78 and a standard deviation of .788 also on whether every employee's work check on the others on this further still respondents responded with a moderate mean of 2.87 and standard deviation of .513, in general respondents responded with a total low mean response of2.54 and standard deviation of .800 implying authorization a diverse effect on financial performance of commercial bank.

Effect of budgeting on financial performance of commercial bank

From the study findings on the effects of budgeting on financial performance of commercial bank, respondents were asked based on the following, whether Equity Bank has budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the Variances given on these respondents responded with a moderate response of 2.87 and standard deviation of .788, on whether financial budgeting is done annually on this respondents responded with a low mean response of 2.33 and standard deviation of .513, on whether Equity bank's budget shows actual expenditure incurred on this respondents responded with a moderate mean response of 2.66 and standard deviation of .810 this implies that indeed Equity Bank's budget shows actual expenditure incurred, in general in the study to find out the effect of budgeting on financial performance of commercial bank respondents responded with a total mean low response of 2.67 and standard deviation of .724 this implies that indeed budgeting has an effect on financial performance of commercial bank

Relationship between internal controls and financial performance in commercial banks.

From the findings, there is a strong positive relationship between internal controls and financial performance in commercial banks at Pearson correlation coefficient at 0.838. **5.2**

5.2 Conclusion

Internal control systems which relied entirely on segmentation of duties. plans of organization, budgeting, authorization and approval, rotation of employees, safeguarding of assets among others may be used to control frauds, embezzlement and accounting errors that is, it ensured proper and satisfactory cash management and hence good performance of equity Bank (U) Ltd.

Therefore, it is very important to note that, internal control systems play an important role in the performance of commercial banks especially equity Bank (U) Ltd since it ensures that business is ran in accordance with prescribed managerial policies, organizational resources especially cash which is properly handled, there is incidental accountability for all cash received and payment is made on the basis of proper documentary authority for the benefit of the bank and such authorization is limited to few known and eligible personnel.

On the other hand, the researcher identified the factors which led to inefficiency and ineffectiveness of used internal control systems. Some of these factors are inability of Equity Bank (U) Ltd to implement satisfactory control such as proper authorization and approval of funds. lack of active internal audit unit in big organization like Equity Bank (U) Ltd and failure to separate the responsibility for related transaction.

On the above basis the researcher recommended that segmentation of duties should be adopted to eliminate or minimize the chances or consequences which are likely to happen as the result of failure to segment the duties in equity Bank (U) Ltd. to bring about good performance.

On budgeting the researcher recommended that equity bank should establish authority and responsibility centres for every function to provide basis for the cost centre, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the financial year budget.

5.3 Recommendations

On the basis of this research work performed, the researcher recommended the following with the aim of improving the internal control systems of equity Bank (U) Ltd to bring about better performance of the bank and hence ensured that the controls practiced are appropriate and satisfactory:

The bank should increase the ability of implementing the internal control process, policies and procedures at hand. Equity Bank (U) Ltd had almost all vital internal control policies, the only problem existing is its inability to act and operate within the set principles.

On Segmentation of duties. The researcher recommended that equity bank must segregate duties such that tasks performed by different people can easily be identified, Separation of accounting and custody of assets: An employee who had custody of an asset or an access to an asset let's say cash should not maintain the accounting records of that asset, this alms at reducing temptation to that particular employee. This may also be sorted out by increasing the number of employees so as to facilitate the separation of duties.

On authorization the researcher recommends that equity bank directors must approvals any kind of payment before employees are permitted to handle or perform any transaction, every transaction should go through four steps: authorization, approval, execution and recording. For example when top management authorizes a transaction, the departmental manager may approve and payment office execute while accounting office records it in its books, the danger of fraud are in increase. Studies of fraud cases suggest that many individuals may be tempted into dishonest act if given complete control of company assets (Source: External payment in arrear Account scandal of BOT as audited by Ernest and Young, in 2008). So equity bank (U) Ltd should consider this fact and minimize the possibility as quick as possible to be free from this risk.

On budgeting equity bank must establish authority and responsibility centres. For every function to provide basis for the cost centre, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the financial year budget. One person should be clearly responsible for each function in the budget otherwise it would be difficult to determine the cost /expenditure against revenue and the person responsible for budget review. This leads to effectiveness and it promotes efficiency hence economic growth and development.

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APPENDIX 1

RESEARCH INSTRUMENTS

(a) QUESTIONNAIRE

I'm Sserunjogi Fred pursing Bachelor's Degree in Business Administration with Finance and Accounting option from Kampala International University. I'm conducting a research on the topic: "The role of internal control systems on the performance of commercial banks with a case study of equity Bank (U) Ltd-Kabalagala branch". The purpose of this study is to fulfill my academic requirements. Therefore, I kindly request you to answer the following questions. Your responses will be treated with the highest degree of confidentiality. The data gathered will only and only be for academic benefits.

Background information

Please, tick appropriate box

1. Age

a) 18-24 ☐ b) 25-30 ☐ e) 43 and above ☐
c) 31-36 ☐ d) 37-42 ☐

2. Sex/Gender

a. Male ☐ b Female ☐

3. Marital status

a. Single ☐ b. Married ☐

c. Divorced ☐

4. Level of education

a. Certificate ☐ploma ☐fessional course CPA ☐

c. Degree ☐ d. Masters ☐

SECTION B

Questionnaire to determine the level of Internal Control systems.

Please rank the following statement on likert scale ranging from strongly disagree to strongly agree

Where:

1= strongly agree, 2= agree, 3= strongly disagree,4= disagree,5= not sure

Segmentation of duties and financial performance

Questions	1	2	3	4	5
Our institution has clear separation of roles					
Our governing council and its committees are independent of Management.					
Management closely monitors implementation of Internal control systems in our institution					
Management provides feedback to the junior officers about the Operation of the system					
Our Institution has a well developed Chart of Account					
Management acts with a great degree of integrity in execution of their roles.					
Ethical values are upheld in all management decisions.					
Our Institution has an objective, independent and active audit Committee.					

Authorization and financial performance

Questions	1	2	3	4	5
Internal auditor makes appropriate recommendations for Management to improve.					
It is impossible for one staff to have access to all valuable Information without the consent of senior staff.					
There is appropriate supervision by senior staff on the work of their juniors.					
Every employee's work check on the others					
All Payments are approved by management.					
There is Preventive control in equity bank					
There is detective control in equity bank					
There is Corrective control in equity bank					
Receipts are verified before posting and other documents					
Approvals are done before cash is given out					

Budgeting and financial performance

Questions	1	2	3	4	5
We have budget reviews where actual expenditure is Compared with budgeted expenditure and explanations for the Variances given.					
Financial budgeting is done annually.					
Our budget shows actual expenditure incurred					
our budget shows actual revenue generated					
Management make decision basing on financial report.					
Our financial report shows our corporate responsibilities to the communities and its surrounding.					
There is Proper Record Maintenance in equity bank					
Taxes are catered in the budget					
.There is Proper Safeguarding of Assets in equity bank					
Depreciation of assets are catered for in the budget					

SECTION C

Please answer "yes" or "No" in the box provided.

5. Did you have internal control systems in place in equity bank (U)

a. No ☐ b. Yes ☐

6. Are internal control systems related to performance of an entity?

a. Yes ☐ No ☐

7. Please, tick the different types of internal control systems that are in equity bank us Kabalagala branch

a. Protective ☐ Detective ☐

b. Corrective ☐

8. Are the internal control procedures for three the above types of internal control systems?

a. Yes ☐ b. No ☐

9. A part from physical control and security on cash, do you have other system of control in authorization of cash and other disbursements?

a. Yes ☐
b. No ☐
c. Not sure ☐

10. Do you think, internal control is efficient and effective in the performance of an organization?

a. Yes ☐ b. No ☐

c. Not sure ☐

11. Are internal control process policies and procedures satisfactory in equity bank (U) Ltd?

a. Yes ☐ b. No ☐

c. Not sure ☐