Internal Control System and Performance

Of Housing Finance Bank in Kampala

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A Thesis

Presented to the College of

Higher degrees and research

Of Kampala International University

Kampala, Uganda

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In partial fulfillment of the requirements for the Degree

Of Masters of Business Administration

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By:

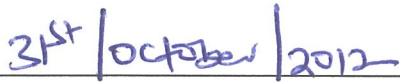Owino Samson

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September, 2012

DECLARATION A

"This thesis is my original work and has not been presented for a degree or any other academic award in any university or institution of higher learning"

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OWINO SAMSON

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31st /october /2012

Date

DECLARATION B

I acknowledge that this research thesis has been done under my supervision and to the best of my knowledge it has never been presented to any institution of Higher learning for any award (s)

MR.KASOZI GEOFFREY

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APPROVAL SHEET

This thesis entitled "Internal control system and Performance of Housing Finance bank in Kampala district has been prepared and submitted by Owino Samson in partial fulfillment of the requirement for the Award of degree of Masters of Business Administration, and has been examined and approved by the panel on oral examination with grade of <u>PASSED</u>.

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DEDICATION

I dedicate this work to my beloved mother Ms Alice Nyaketcho and My brother Engineer Odongo who have struggled a lot for my future and not forgetting my family especially my beloved son Odongo .J. Darwin and wife Nambuya Betty for their calmness which allowed me to finish this research study on time.

ACKNOWLEDGEMENT

ABSTRACT

This study sought to establish the effect of internal control system on performance of Housing Finance bank in Kampala District. The researcher used questionnaires as the research instrument. A sample of 200 employees was used as respondents of the study. The objectives of this study were i) To determine the profile of the respondents in terms of gender, age, working experience and level of education, ii) Determine the extent to which internal control system is applied by Housing Finance bank in Kampala iii)To determine the level of performance of Housing Finance bank in Kampala. iv) To establish significant relationship between internal control systems and performance of Housing Finance bank in Kampala. Purposive and simple random sampling were used as the sampling procedures and the data collected was analyzed using SPSS package so as to determine mean, the level of dependent and independent variables. Using Pearson's Linear Correlation Coefficient, the correlation between the variables was determined. It was established that there is a significant relationship between internal control system and performance of Housing Finance bank. Internal control system is significantly correlated with level of performance of Housing Finance bank (r=0.480, sig=0.002). Basing on these results, since the sig. value (0.000) was less than 0.05 which is the minimum required level of significance in social sciences, there is a significant relationship between internal control systems and level of performance of Housing Finance bank. It is recommended that all banks should have a strong ICS such that fraud and errors can be detected at the earliest for efficiency and effectiveness of banks' performance.

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LIST OF ACRONYMS AND ABBREVIATIONS USED

COSO   :   Commit of Sponsoring Organizations

ICS   :   Internal Control System

ICT   :   Information, Communication and Technology

SPSS   :   Statistical Packages for Social Sciences

KIU   :   Kampala International University

HFB   :   Housing Finance Bank

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the study

The management in various organizations is obliged to provide necessary controls, particularly in their internal system. The implementation of such internal control and policy are applied to secure the revenues and have a proper allocation on the expenses and resources. Having the internal control in the management will sure create a great change among the structure of operation in the business.

As an important part of the management of the modern business enterprises, the internal control of a commercial bank is a kind of self-disciplined behavior .It is the total appellation of the methods, measures, and procedures that the Housing Finance bank adopt to operate risk control, system management and mutual control through the business activities of the sections and employees and to attain the decided work targets and keep risks away. (Caplan, 1999).

Performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

If the a commercial bank want to establish the management mechanism of Ego operation, Ego supporting risks, Ego supporting wax and wane and Ego stipulation and they want to unify the safety, liquidity, and performance of the funds operation, they must continuously push forward and perfect the management of their internal control, normalize the managements and behaviors, strengthen consciousness and self-stipulation and increase the ability of anti-risk. (Kinney, 2000).

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Facts prove that good internal control system is very important for the Housing Finance bank to attain the decided targets and keep the finance in good condition. This topic analyzed and summarized the development and fruits of the Housing Finance bank, internal control from both sides of the theories and fulfillment; brings forward the basic thoughts and protective measures to push forward and perfect Housing Finance bank' internal control system.

Statement of the problem

Housing Finance bank plays a leading role in economic growth especially through credit creation in the economies where capital markets are not yet fully developed.

However, in Uganda, people are still holding on to their money. They would rather keep it in their houses or property than depositing to banks.

No purchase of treasury bills, no savings (either fixed current or savings accounts etc). Interest rates especially on fixed deposit account are still low hence discouraging savings.

Generally, there is poor sensitization and lack of knowledge on commercial bank products, despite springing up of many commercial banks in the recent times.

This puts the performance of Housing Finance bank in doubt and daunting hence generally unsatisfactorily.

Much as there are structures in place like organizational plans, Segregation of duties, Physical controls, authorization and approval, financial controls, rotation of duties, routine and automatic checks among others, bank fraud in the country is on the increase and cases that have been reported are twofold, including Automatic Teller Machine (ATM) and over the counter fraud. Fraudsters and robbers are targeting bank customers' money from the Automated Teller Machines through card swapping and card skimming techniques putting millions of customers at risk of losing their money and lives (The East African Business Week, 20/12/2011).

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This study intended to explore the measures that Housing Finance bank can take to safeguard customers' deposits that are lost across the counter and through Automatic Teller Machine (ATM) and also the banks' assets.

Purpose of the study

This study tested hypothesis of no significant relationship between internal control system and performance of Housing Finance bank. The hypothesis is rejected because there is clear indication that internal control system is positively significant to the performance of Housing Finance bank. The study also validated "The Agency Theory" because internal control is used in Housing Finance Bank to address the agency problem" and to reduce agency costs as stated in the theory and the study further bridged the knowledge gap because there was no research carried out on this subject which can now be used for references by other researchers.

Research objectives

General: The study determined the relationship between internal control system and performance of Housing Finance bank in Kampala Uganda.

Specific:

1. To determine the profile of respondents in terms of;

    i. gender

    ii. Education level

    iii. Age

    iv. Number of years worked with the Bank

2. Determine the extent to which internal control system is applied by Housing Finance bank in Kampala

3. Determine the level of performance of Housing Finance bank in Kampala.

4. Establish significant relationship between internal control system and performance of Housing Finance bank in Kampala.

Research questions

1. What are the profiles of the respondents in terms of;

   a) Gender?
   b) Education level?
   c) Age?
   d) Number of years worked with Housing Finance bank?

2. What was the extent to which internal control system was applied in Housing Finance bank in Kampala Uganda?

3. What was the level of performance of Housing Finance bank in Kampala Uganda?

4. Was there significant relationship between internal controls and performance of Housing Finance bank in Kampala?

Null hypotheses

1. There is no significant difference between internal control system and performance of Housing Finance bank

2. There is no significant relationship between internal control system and performance of Housing Finance bank in Kampala Uganda.

Scope

Geographical scope

This study was conducted in Kampala District where nine branches of Housing Finance bank were sampled.

Theoretical scope

This study was guided by "The Agency Theory" as initially put across by Jensen & Meckling, (1976) and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010). 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, 1976).

Content scope

The study was confined to three major types of internal control system (detective, corrective and preventative) and components (control environment, internal audit and control activities) as they enhanced performance of Housing Finance bank. Internal control measures like segregation of duties, authorization and approval, qualified personnel, arithmetic and counting, supervision. Performance of Housing Finance bank included the going- concern of a bank, increase in job creation, and increase in number of people who use bank, increase in profitability and reduction in operational costs among others.

Time scope

The study was carried out for two months from July to August 2012.

Significance of the study

The study availed future researchers with data on related topics and has further enriched the literature content of related subjects of study.

Housing Finance bank and banking industry in general have been enable to put in place and strengthen their internal controls in view of their benefits, help management in planning and effective decision making that are consistent with the requirements of a good internal control system.

Managers and owners of Housing Finance bank have found it important to identify relevant internal control system they needed to efficiently run the bank and other businesses they manage.

The study has revealed factors affecting performance of Housing Finance bank and growth like high taxation, economic meltdown, ignorance of the public about the importance of the banking sector and hence potential areas that require intervention by the government.

Theoretically, the study has contributed to testing several hypotheses on how internal control system influence performance of Housing Finance bank in Uganda.

Operational definitions of key terms

For purposes of this study, the following terms were operationally defined;

Internal control system is control procedures put in place by the management of an organization to ensure efficient and effective operation of her activities, so as to meet the organization's objectives.

Commercial bank is a financial institution that operates with a view of maximizing profits and minimizing costs.

Performance refers to the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats.

CHAPTERR RWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/ Experts

Internal control system

Didnald and Turney (1984), defines internal control system as that which compresses the plan of organization and all of the methods and procedures adopted by a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

Kermit and Wild (1999) defines internal control system, as the policies and procedures that managers use to protect assets, ensure reliable accounting, promote efficient operations and urge adherence to company policies internal control system (ICS) apply to all asset owned by a business and to all phases of its operation so as to protect assets from fraud, theft, misuse and embezzlement.

Belverd (2005) defines internal 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 safe guard assets and has 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 centered procedures.

Wolf (1985) defines internal control system as 'the whole system of controls financial and otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, to ensure adherence to management policies safeguard the assets and secure as far as possible the completeness and accuracy of records.'

Both definitions (AICPA and that of Wolf) are focused on the same three points as namely here under:-

i.   Safeguard of the assets from waste, fraud or theft

ii. To have sound management which adhere to its policies

iii. To increase operational efficiency of an organization.

Types of Internal control system

Preventive internal control system

Penne and Deines (2004); describes preventive internal control system aims at preventing or avoiding the risks from directly " fakery, preventive added that policies and activities such as segregation of duties, use of serially pre numbered documentary, proper remuneration systems, limits access to assets and among others were aimed at prevention of fraud, corruption and embezzlement.

Detective internal control system

David (1996), describes detective internal control system as those policies or systems that detect any errors in the accounting procedures that were committed. These could be exception types of reports that reveal that controls have been circumvented (evade a difficulty) for example, large amounts paid without being authorized. Other examples could include reconciliation, supervision and internal checks.

Corrective internal control system

These controls address any problems that have occurred. Where problems were identified those controls that would ensure that the problems were properly rectified, examples include follow – up procedures and management action.

Components of Internal Control system

According to Hayes *et al.*, 2005 internal control comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purposes of this study, the research narrowed down to only three components of the internal control system. These are; the control environment, internal audit and control activities. The other components of the internal control system will be held constant.

It is therefore worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity's assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company's financial statements do exist, that all the assets presented in the company's financial statements are recoverable and that the entity's transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA- Audit and Assurance Services) Internal control is the term generally used to describe how management assures that an organization does meet its financial and other objectives.

Internal control system not only contributes to managerial effectiveness but is also important duties of corporate boards of directors. (Verschoor; 1999).
Hitt, Hoskisson, Johnson, and Moesel (1996) argued 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 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 (Gupta, 1987). 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, 1994).

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 (1980) and Eisenhardt (1985) 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.

As a firm grows especially through acquisition, it also grows in complexity and the number of units that corporate executives must oversee and manage (thereby increasing their spans of control). Clearly, each acquisition increases corporate managers' need for information processing, sometimes dramatically so. These changes make it difficult for corporate managers to use strategic controls. To reduce information-processing demands, they may change their emphasis from strategic to financial controls.

Control Environment

Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit

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committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles). Control environment has several factors, however, for purposes of this research, the review focused on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors.

The study by Wallace & Kreutzfeldt (1991) was among the first to demonstrate the importance of the control environment in explaining the existence of an internal audit function. More recently, Goodwin-Stewart & Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices.

Internal control system not only contributes to managerial effectiveness but is also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control system (Verschoor, 1999).

Internal Audit and Financial performance.

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory &

other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Gupta (2001) on the other hand asserts that "Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization". The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. According to Gupta "the scope of internal audit is determined by management". This may however, impair the internal auditor's objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work.

According to Bhatia (2003), Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It's also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system (Subramaniam, 2006). Emasu (2010) notes that "The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is however a bitter reality that internal audit departments are rarely adequately facilitated.

Earnest and Young (1995), the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed. Examples of the due professional care by the internal auditor are the existence of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments and satisfactory arrangements for reporting and following up.

Control Activities

Ray and Pany (2001) also mention Control activities as another component of Internal controls.

They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

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 (1995) 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, 1999).

Hitt, *et al* (1996) 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.

Measures of performance

According to Dixon *et al* (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey & Meredith (1997) 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 (1994) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity. Verschoor however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.

Hitt, et al., (1996) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Survival

According to Kotler (1992), 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 (1994) found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Uganda, about 90% of Ugandan SMEs collapse within 3 years Katuntu (2005). This is therefore an indicator of poor financial performance.

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Liquidity

Hitt, *et al* (1996) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organization's liquidity. Other measures of Liquidity according to ACCA and Panday (1996) 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 (2001), 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.

Internal Control system procedures

These are the detailed policies and procedures established by the management within the control environment (Mwindi, 2005).The mix of types of controls implemented by management depended on the control objectives in each accounting area and the size of the entity.

Organizational chart

An organizational chart shows clearly the various departments within the company, their functions and persons charged with ensuring that functions are fulfilled. They seek to ensure that the entity is properly departmentalized. The functions of every department are specified and the duties of every individual in the department are specified. Delegation of Authority and limits of authority are clearly defined. Such a plan boosts accountability within the organization and reduces the duplication of effort (Mwindi, 2005).

Segregation of duties

This refers to the separation of various duties and responsibilities such that one person cannot process and record complete transactions from the beginning to the end without being checked by another person (Mwindi,2005).In this regard for every transaction the following functions should be performed by different individuals and departments as much as possible and practical.

Performance

Kenny (1995) 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 taken together to support people in the attainment of the objective of an organization.

According to investorguide.com, commercial bank is an institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While Housing Finance bank offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Economic performance is conceptualized by Begley (1995) as the rate of increase in revenue and can be used to differentiate levels of performance among different entrepreneurial firms. Another economic measure is increase in sales.

Performance here can be measured by establishing whether sales have increased, remained constant or declined. However, this measure is limited by the fact that sales growth is not an objective of all firms. In such case however, profits are used as a measure.

Allan (1993) showed that performance factors for a business enterprise are grouped into personal and environmental factors. Personal factors include challenges one experiences, self-concepts and adaptability and previous exposure.

Environmental factors include relationships with others (customers, subordinates, colleagues, family and friends), one's training and education and other environmental hardships. This conceptualization implies that performance can be internal and external (personal and environmental). This study considered performance as internal and environmental. Internal performance involves personal benefits like personal satisfaction, improved quality, relations, and experience among others.

External performance involves increased profits, increase in number of customers who use banks, increase in number of people employed in the banking sector, increase in assets, among others. The going-concern is both internal and external.

Many researchers have identified various indicators of business performance; for example Covin and Slevin (1997), venture growth is a crucial indicator of venture (business) performance; Hisrich (2000) and Bygrave (2004) looked increase in sales, income, employment and satisfaction; Newton (2001) considered increased productivity, competitiveness, market share, profit and opening branches; Bosna (2001) considered increased trained people (human capital), satisfaction and long term survival; while Emeric (1998) considered economic performance (including growth in sales, employment and income) and satisfaction. To him, performance can be measured subjectively using perceptions of entrepreneurs and objectively using economic performance such as efficiency, growth, profit, size, liquidity, market share and leverage. While the first concept is ambiguous and is difficult to measure, increase in the rest seems to be better measures of performance.

Theoretical perspective

This study was guided by "The Agency Theory" as initially put across by Jensen & Meckling, (1976) and later expounded on by Gerrit Sarens & Mohammad J. Abdolmohammadi, (2010). Gerrit & Mohammad theory also has connotations with the Theory of firm articulated by Nicolai J. 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, 1976). 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 may be the 'moral hazard' problem (Jensen & Meckling, 1976), indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals.

This Theory was chosen for this study simply because "Internal control is one of many mechanisms used in business to address the agency problem" (Jensen and Payne 2003) and again "studies have shown that internal control reduces agency costs" (Abdel-khalik 1993; Barefield et al. 1993).

The Agency theory is very relevant to the study because, the agents (managers) have more information than the principal (owners of resources) and that this information asymmetry adversely affects the principal's ability to monitor performance. The principal therefore employs internal control system to assist in effective and efficient deployment of resources and hence monitor performance of the bank. "Internal control is used in business to address the agency problem" (Jensen and Payne 2003) and again "studies have shown that internal control reduces agency costs" (Abdel-khalik 1993; Barefield et al. 1993).

Review of Related studies
Internal control system and performance of Housing Finance bank

Several other studies have indicated the importance of internal control system to business efficiency.

Lembi Noorvee (2006), made a study on the evaluation of the effect internal control system over financial reporting where the researcher found that the owner/managers with good financial skills make more use of internal control system to produce financial information. Those with limited financial skills place little value on the financial statements produced by their external accountants. Also, small businesses use computers in their business for the preparation of accounts, but usually not to their full potential. Frequently, the accounting packages were used to prepare profit figures, which were erroneous and incomplete.

The Canadian Institute of Chartered Accountants (1995), made a study on internal control system and risk management in which a risk model was designed. Audit risk=Inherent risk*control risk* detection risk. Audit risk means the risk that the auditor gives an inappropriate audit opinion. The study also suggested control measures such as;

> Segregation of duties
>
> Organizational chart
>
> Mathematical and accounting control

Ssuuna (2008) made a study on the effects of internal control system on financial performance in an institution of higher learning in Uganda. The study concluded that the institution has an effective internal control system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the upcountry centers which clearly has affected their efficiency as revealed by this study

Research gap

From the reviewed literature, no researcher has made a study on the internal control system and Performance of Housing Finance bank in Kampala.

Therefore, it is against this back ground that the researcher took this study to fill that gap.

CHAPTER THREE

METHODOLOGY

Research Design

This study employed the *descriptive survey* design specifically the *descriptive comparative* and *descriptive correlational* strategies. Descriptive studies are *non-experimental* researches that describe the characteristics of a particular individual, or of a group. It dealt with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that have universal validity. It also involved events that have already taken place and may be related to present conditions (Kothari, 2004). Further, descriptive surveys are used to discover causal relationships (descriptive correlational), differences (descriptive comparative), to provide precise *quantitative* description and to observe behavior (Treece and Treece, 1973).

Research Population

The target population included 400 Housing Finance bank staff like receptionists, tellers, & top management in Kampala District. The top management staff was involved because it is the planning body of the Housing Finance bank and the lower level commercial bank staff being the implementers.

Sample Size

The study sampled 200 employees from nine branches of Housing Finance bank in Kampala. The Sloven's formula was used to determine the minimum sample size.

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

Where; n= the required sample size; N= the known population size; and e= the level of significance, which is = 0.05 and 1 is constant.

The 200 employees of Housing Finance involved in the sample were selected equally from the nine branches in Kampala district.

Table 1

Sample size distribution

NO	SELECTED BRANCHES	POPULATION (N_i)	SAMPLE $n_i = \frac{N_i}{N}*n$
1	Ndeeba	40	20
2	Kololo	60	30
3	Ntinda	40	20
4	Owino	50	25
5	Kampala Road	40	20
6	Kikuubo	50	25
7	Nakasero	50	25
8	Garden City	40	20
9	Namuwongo	30	15
	TOTAL	N=400	n= 200

Source: Primary data 2012

Sampling Procedures

The purposive sampling was utilized to select the respondents.

From the list of qualified respondents chosen based on the inclusion characteristics, the simple random sampling was used to finally select the respondents with consideration to the computed minimum sample size.

Research Instruments

Researcher devised questionnaires distributed to selected respondents. To avoid subjectivity, the respondents were anonymous. The researcher explained and clarified to respondents in areas where they need more clarification. The researcher used questionnaire because of its anonymity which gives the respondent a chance to air out everything without hiding. The questionnaire consisted mainly three sections. Section one which is respondent's profile, section two which is the internal control system, section three, performance. Most of the questions in the questionnaire were close ended and four scales were used that is 1, 2, 3,and 4 where 1= strongly agree, 2 = Agree 3 = Disagree 4= strongly Disagree. Respondents were required to rate each item by writing the right number/ figure in the space provided before each question.

Validity and Reliability of the Instruments

To ensure the validity of the instrument, the researcher employed expert judgment method. After constructing the questionnaire, the researcher contacted experts in this area to go through it so as to ensure that the instrument was clear, relevant, specific and logically arranged. Also a pre-test was conducted in order to test and improve on the reliability and validity of the instrument, Content Validity Index (CVI) was used as a pre-test in order to test and improve the reliability and validity of the instrument as shown in **table 2 and 3** respectively. CVI was greater than 0.07 thereby declaring the instrument valid.

Reliability of the instrument was tested using Cronbech's coefficient alpha (a) and the results obtained a=0.78 (SPSS) results which was greater than 0.70 indicating that the instrument was highly reliable.

Table 2

Reliability of the research instruments

Cronbach's Alpha	N of items
.890	39

Source: *primary data 2012*

Further adjustments were then made on the items rated irrelevant. The summary is here presented in table 3 below

Table 3

Determination of Validity of Instrument

	Relevant items	Irrelevant items	Total
Rater 1	23	4	27
Rater 2	24	3	27
Total	47	7	54

Source: *primary data 2012*

$$CVI = \frac{\text{Number of items rated as relevant}}{\text{Total number of items being judged/rated in the questionnaire}}$$

$$CVI = \frac{47}{54} \qquad CVI = 0.87$$

Data Gathering Procedures

Before the administration of the questionnaires

An introduction letter was obtained from the college of Higher Degrees and Researcher for the researcher to solicit approval to conduct the study from respective HFB branches.

When approved, the researcher secured a list of the qualified respondents from the bank personnel.

Explanation on the purpose of the research was given to respondents. After which they requested to sign the Informed Consent Form (Appendix 3).

Training and selection of research assistants was also done to fasten the process of the data collection. In the training process, the research assistants were briefed and oriented on how they could effectively and consistently carryout the process of data collection.

The respondents were explained about the study and were requested to sign the Informed Consent Form (Appendix III). The researcher pre-tested the instrument; administer it again by pre-testing the instrument. The researcher revised the questionnaire accordingly, nominated research assistants to help in the distribution, follow-up and collection of filled up questionnaires from the respondents.

During the administration of the questionnaires

The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered and be objective in answering questions. The researcher and assistants emphasized retrieval of the questionnaires within seven days from the date of distribution. On retrieval, all returned questionnaires were checked and were all answered.

After the administration of the questionnaires

Data obtained from respondents were entered into an SPSS database application for analysis. The findings were presented by the use of descriptive statistics.

Data Analysis

The frequency and percentage distribution were used to determine the demographic characteristics of the respondents.

The mean and standard deviations were applied for the levels of internal control system applied by the selected banks. An item analysis was used to illustrate the strengths and weaknesses based on the indicators in terms of mean and rank. From these strengths and weaknesses, the recommendations were derived.

The following mean range was used to arrive at the mean of the individual indicators and interpretation:

A. The extent to which ICS is applied by Housing Finance bank

Mean Range	Interpretation
3.26-4.00	Very Good
2.51-3.25	Good
1.76-2.50	Fair
1.00-1.75	Poor

B: Performance of Housing Finance bank

Mean Range	Interpretation
3.26-4.00	Very high
2.51-3.25	High
1.76-2.50	Moderate
1.00-1.75	Low

The analysis of Variance (ANOVA) was utilized to test the difference between means for hypothesis one (Ho #1) at 0.05 level of significance.

A multiple correlation coefficient to test the hypothesis on correlation (Ho #2) at 0.05 level of significance using a t-test was employed. The regression analysis R^2 (coefficient of determination) was computed to determine the influence of the independent variable on the dependent variable.

Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher:

1. Sought permission to adopt the standardized questionnaire on school effectiveness through a written communication to the author.
2. Solicit permission through a written request to the concerned officials of the Bank included in the study.
3. Requested the respondents to sign in the *Informed Consent Form* (Appendix 3)
4. Acknowledged the authors quoted in this study and the author of the standardized instrument through citations and referencing.
5. Presented the findings in a generalized manner.

Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error at 0.05 level of significance. Measures are also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study.

Extraneous variables which was beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

Instrumentation: The research instruments on internal control system and performance of Housing Finance bank were not standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

Testing: The use of research assistants brought about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants were oriented and briefed on the procedures to be done in data collection.

Attrition/Mortality: Not all questionnaires returned neither completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels, sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were also reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Introduction

This chapter presents the findings of the research as well as their analysis and interpretation. Where necessary, aids such as tables and figures are used to illuminate the meaning of the data presented. The findings presented in the tables and figures are further explained to equip the reader with clear picture and understanding of the phenomenon under analysis.

Table 4

Profile of the respondents

Background information	Category	Frequency	Percentage
Gender	Male	125	63
	Female	75	37
	Total	**200**	**100**
Age	Below 20	4	2
	21-29	51	26
	30-39	56	28
	40-49	40	20
	50-59	35	17
	Above 60	14	7
	Total	**200**	**100**
Education level	Certificate	16	8
	Diploma	67	33
	Bachelor	95	48
	Masters	22	11
	Total	**200**	**100**
Experience	Less than a year	10	5
	1-2	40	20
	3-4	40	20
	5-6	70	35
	7 years and above	40	20
	Total	**200**	**100**

Source: Primary data, 2012

The field data in Table 4 shows that out of 200 respondents of the study, 125 of them were male (representing 63%) and 75 were female (representing 37%). This shows that there was unfair gender representation because men dominated the workforce in the bank branches where the study was conducted.

Table 4 also indicates that the ages of the respondents were divided into six categories; (below 20, 21-29, 30-39, 40-49, 50-59 and above 60 years of age. Minority (4) of the respondents were below 20 years (representing 2%), 51 of the respondents were aged between 21-29 years (representing 26%), and 56 respondents were aged between 31-39 years (representing 28%), and they constituted the majority of the respondents. Out of the 200 respondents, 40 were aged between 40-49 years (representing 20%), 35 respondents were aged between 50-59 years (representing 17%) and the remaining 14 of the respondents were above 60 years of (representing 7%). These figures show that all the working age groups were considered when carrying out the study.

The respondents were asked of their academic qualifications. The results from table 4 show that; 16 were certificate holders (representing 8%). On addition, 67 were diploma holders (representing 33%), the majority (95) were bachelor's degree holders (representing 48%), and 22 were Masters' degree holders (representing 11%). This meant that the respondents were educated and hence knowledgeable about the subject of the study.

The information in Table 4 also considered working experience obtained by the respondents; that is to say the numbers of years worked with the bank in their present positions. The results showed that 10 of the respondents had worked for less than a year (representing 5%), 40 of the respondents had worked with women for 1-2 years (representing 20%). Furthermore, 40 have worked for 3-4 years (representing 20%), and the majority of the respondents have worked for 5-6 years (representing 35%) and the remaining 40 respondents have worked for more than 7 years (representing 20%).

This shows that the study included the different experiences of the respondents so as to attain in-depth views of the different respondents and since the majority (35) of the respondents have worked for 5-6 years, their responses are genuine because of their experience in working with the bank.

The extent to which internal control system is applied by Housing Finance bank in Kampala

This sub section targets objective 2 of the study. The independent variable in this study was to determine extent to which internal control system is applied by Housing Finance bank in Kampala. Responses were scaled ranging from 1-4; where 4=Very Good, 3=Good, 2=Fair and 1=Poor. The key to the rating is: Poor (1:00-1.75), Fair (1.76-2.50), Good (2.51-3.25), Very good (3.26-4.00). The responses were analysed using the mean computed through the SPSS program, and are shown in Table 5, below.

Table 5

The extent to which internal control system is applied by Housing Finance bank in Kampala

Category	Mean	Interpretation	Rank
The guidelines and work procedures are communicated to all staff	3.67	Very Good	1
Policies and procedures exist in Housing Finance bank	3.61	Very Good	2
The policies help in the prevention of cash losses due to fraud	3.46	Very Good	3
The records kept at banks are adequate to safeguard against loss of cash	3.46	Very Good	4
Every employee of branch is assigned specific duties depending on job description	3.44	Very Good	5
Employees are trained for the work they do	3.42	Very Good	6
These guidelines and work procedures are easy to understand by all staff	3.41	Very Good	7
Branches send reports to their headquarters once a week	3.41	Very Good	7
An employee working as a teller balances and reconciles the daily deposits and withdrawals	3.40	Very Good	9
The policies are regularly reviewed and changes made known to the employed	3.39	Very Good	10
The guidelines and work procedures are relevant to the work we do	3.38	Very Good	11
Banks have daily checkups for teller during entrance and exit to avoid cash loss	3.31	Very Good	12
Duties at the banks are categorized into different levels	3.28	Very Good	13
Segregation of duties helps in minimizing cases of fraud and loss of cash and other assets	3.21	Good	14
Loss of cash has reduced because withdrawals are done after authorization	3.19	Good	15
Loan defaulting has reduced because loans are given after authorization	3.17	Good	16
There are specific pre-printed stationery for various operations at banks	3.16	Good	17
Authorization by responsible persons has reduced cases of fraud and asset loss	3.13	Good	18
Once the reports are analyzed, the findings are used for improvement	3.08	Good	19
Average mean	3.34		

Source: Primary data, 2012

Mean Range	Interpretation
3.26-4.0	Very High
2.51-3.25	High
1.76-2.50	Moderate
1.00-1.75	Low

The results in Table 5 show the extent to which internal control system is applied by Housing Finance bank in Kampala. The respondents strongly agreed and agreed respectively with the statements that they were requested to rank their views against. The respondents strongly agreed that; policies and procedures exist in Housing Finance bank (mean 3.61); the guidelines and work procedures are communicated to all staff (mean 3.67); these guidelines and work procedures are easy to understand by all staff (mean 3.41); the policies are regularly reviewed and changes made known to the employed (mean 3.39); the policies help in the prevention of cash losses due to fraud (mean 3.46); duties at the banks are categorized into different levels (mean 3.28).

The respondents further strongly agreed that the guidelines and work procedures are relevant to the work we do (mean 3.38); that every employee of branch is assigned specific duties depending on job description (mean 3.44); an employee working as a teller balances and reconciles the daily deposits and withdrawals (mean 3.40); and that employees are trained for the work they do (mean 3.42); the records kept at banks are adequate to safeguard against loss of cash (mean 3.46); banks have daily checkups for teller during entrance and exit to avoid cash loss (mean 3.31); and that branches send reports to their headquarters once a week (mean 3.08).

The study further showed that the respondents agreed that segregation of duties helps in minimizing cases of fraud and loss of cash and other assets (mean 3.21); authorization by responsible persons has reduced cases of fraud and asset loss (mean 3.13); loss of cash has reduced because withdrawals are done after authorization (mean 3.19); loan defaulting has reduced because loans are given after authorization (mean 3.17); there are specific pre-printed stationery for various operations at banks (mean 3.16); and that once the reports are analyzed, the findings are used for improvement (mean 3.08).

The strong agreements show that there is internal control system applied by Housing Finance bank in Kampala and that it is very effective the operation of the bank. It shows that internal control system as applied by Housing Finance bank are very important in the effective and efficient running of the banking organizations in Kampala. Viewing the fact of increasing importance of the effective internal control system in ensuring the prudent and safe operations of the banks, it's showed that internal control system are employed and effective used by commercials banks in Kampala. These internal control system cover all financial, operational and other control systems established within the bank, and regulate control activities preventing undesired events or investigative control activities aimed at proving and remedying undesired events which have occurred and leading control activities.

Table 6
Level of performance of Housing Finance bank in Kampala

Category	Mean	Interpretation	Rank
Management and the board involve audit personnel or other internal control experts in the risk assessment process	3.72	Very High	1
Actions are taken against any cases of misappropriation of bank funds	3.68	Very High	2
The board and management discuss and appropriately consider control issues when planning for new products and activities	3.67	Very High	3
The board and management appropriately evaluate risks when planning for new products or activities	3.63	Very High	4
There are least cases of misappropriation of funds in the bank	3.59	Very High	5
Cash flow (collection reports) are presented to the top management who give feedbacks based on report intended for improvement	3.56	Very High	6
There are minimal errors committed by the employees while on duty	3.55	Very High	7
The bank managers are given reports on cash flow and expenditures to indorse	3.52	Very High	8
ICS have been very effective in risk management and this saves the banks from losses that would accrue	3.50	Very High	9
There is minimum supervision by management since workers are guided by structured rules of operation	3.49	Very High	10
Bank employees do their work with ease since they are aware of in-house policies	3.48	Very High	11
ICS has made the operation of the business more efficient	3.46	Very High	12
There is observed transparency and management of cash in the bank due to ICS	3.45	Very High	13
ICS has a positive impact on the business	3.44	Very High	14
I am satisfied with ICS usage in my bank	3.42	Very High	15
The growing increased financial challenges influence usage of strict ICS	3.38	Very High	16
ICS provides timely information management	3.37	Very High	17
There is link between the use of ICS and enhanced business performance	3.33	Very High	18
Cost of adopting a good ICS outweighs the benefits	3.33	Very High	18
Average Mean	3.47	Very High	

Source: Primary data, 2012

Table 6 shows the level of performance of Housing Finance bank in Kampala, objective 3 of the study. The findings reveal that the many respondents strongly agreed with the statements of commercial bank performance in Kampala city. For example, the respondents strongly agreed that; ICS has made the operation of the business more efficient (mean 3.46); bank employees do their work with ease since they are aware of in-house policies (mean 3.48); there are minimal errors committed by the employees while on duty (mean 3.55); and that there is minimum supervision by management since workers are guided by structured rules of operation (mean 3.49).

Furthermore, the respondents also agreed that; ICS provides timely information to management (mean 3.37); there is link between the use of ICS and enhanced business performance (mean 3.33); ICS has a positive impact on the business (mean 3.44); cost of adopting a good ICS outweighs the benefits (mean 3.33); the growing increased financial challenges influence usage of strict ICS (mean 3.38); I am satisfied with ICS usage in my bank (mean 3.38).

In addition to the above, the study revealed that the respondents strongly agreed that; there is observed transparency and management of cash in the bank due to ICS (mean 3.45); there are least cases of misappropriation of funds in the bank (mean 3.59); actions are taken against any cases of misappropriation of bank funds (mean 3.68); Cash flow (collection reports) are presented to the top management who give feedbacks based on report intended for improvement (mean 3.56); the bank managers are given reports on cash flow and expenditures to indorse (mean 3.52). The higher means were further recorded with respondents' strong agreements that; the board and management appropriately evaluate risks when planning for new products or activities (mean 3.63); the board and management discuss and appropriately consider control issues when planning for new products and activities (mean 3.67); management and the board involve audit personnel or other internal control experts in the risk

assessment process (mean 3.72); and that ICS have been very effective in risk management and this saves the banks from losses that would accrue (mean 3.50).

The findings revealed that many of the respondents strongly agreed with the level of performance of Housing Finance bank in Kampala. The strong agreements reveal that there is high performance of Housing Finance bank in Kampala which are influenced by employment of internal control system measures, that have relieved that banks off fraud, and other management loses that would accrue with the absence of strict internal control measures. Internal control system are seen to play very important role in the performance of Housing Finance bank in Kampala city as mismanagement is mitigated and performance achieved in both short-run and long-run terms.

Significant relationship between internal control system and performance of Housing Finance bank in Kampala

Research objective 4 sought to establish if there was a significant relationship between internal control system and performance of Housing Finance bank in Kampala. It was hypothesized that the two variables are not significantly correlated. To test the hypothesis, Pearson's Linear Coefficient was used. Summary of r-value of those variables are presented in table 6.

TABLE: 7

Pearson's Linear Correlation Coefficient for internal control system and performance of Housing Finance bank in Kampala

Variables correlated	R-value	Sig.	Interpretation	Decision on Ho
Internal control system Vs Performance of Housing Finance bank	.480	.002	Positive and significant	Rejected

Source: primary data, *2012*

Table 7 above shows the Pearson's Linear Correlation Coefficient for the relationship between internal control system and performance of Housing Finance bank and it was revealed that; there is a significant positive relationship between internal control system and performance of Housing Finance bank. For example, internal control system is positively and significantly correlated with performance of Housing Finance bank with index (r=0.480, sig=0.002). Basing on these results, since the sig. value (0.000) was less than 0.05 which is the minimum required level of significance in social sciences, there is a significant relationship between internal control system and performance of Housing Finance bank.

Table 8:

Regression analysis between internal control system and performance of Housing Finance bank

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980[a]	.961	.961	.16493

a. Predictors: (Constant), Internal control system

ANOVA[b]					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	150.066	1	150.066	316.884E3	0.01[a]
Residual	5.529	198	2.017		
Total	156.595	199			
a. Predictors: (Constant), Internal Control Systems					
b. Dependent Variable: Performance					

Source: Primary Data, 2012

As it is seen in Table 8 above, the strength of internal control system on performance was tested using regression analysis. The findings in table 8 above therefore shows that the degree of the relationship between the two variables is strong at R. value 0.980 of the regression of the model. In this case it can be said that the amount of variation in independent variable (Internal control system) positively affects the dependent variable (performance).

Generally, the findings indicate that 98% of the dependent variable (performance of Housing Finance bank) is explained by the independent variable (Internal Control System).

In answering the research hypothesis of no significant relationship between internal control system and performance of Housing Finance bank, it can be said that the stated hypothesis is rejected thus, there is clear indication that internal control system are positively significant to performance of Housing Finance bank.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the findings

Profile of Respondents

On the profiles of the respondents in terms of gender, the study found that the majority of the respondents were males 62% while 38% were females, meaning that there was unfair gender representation because men dominated the workforce in the bank branches where the study was conducted. On respondents' age, the study revealed that the minority (4%) of the respondents were below 20 years, 23% of the respondents were aged between 21-29 years, and that the majority (27%) of the respondents were aged between 31-39 years. Furthermore, 17% of the respondents were aged between 40-49 years, 21% were aged between 50-59 years, and the remaining 8% of the respondents were above 60 years, which means that all the working age groups were considered when carrying out the study.

The findings also show that; 8% of the respondents were certificate holders, 32% were diploma holders, the majority (44%) were bachelor's degree holders, and 16% were Masters' degree holders, meaning that the views of all the respondents are viable since they were knowledgeable about the subject of the study, given their education levels.

The working experiences of the respondents were also considered and the findings showed that; 3% of the respondents have worked in the bank for less than a year, 22% have worked with women for 1-2 years, 20% had worked for 3-4 years, and yet the majority (37%) of the respondents have worked for 5-6 years, and the remaining 18% of the respondents have worked for more than 7 years.

The extent of internal control system application in Housing Finance bank

On the extent of internal control system application in Housing Finance bank, the study revealed that the internal control system applied by Housing Finance bank in Kampala are very effective the operation of the bank. It shows that internal control system as applied by Housing Finance bank are very important in the effective and efficient running of the banking organizations in Kampala. Viewing the fact of increasing importance of the effective internal control system in ensuring the prudent and safe operations of the banks, it's showed that internal control system are employed and effective used by commercials banks in Kampala. These internal control system cover all financial, operational and other control systems established within the bank, and regulate control activities preventing undesired events or investigative control activities aimed at proving and remedying undesired events which have occurred and leading control activities.

Level of performance of Housing Finance bank in Kampala

On the level of performance of Housing Finance bank in Kampala, the study revealed that there is high performance of Housing Finance bank in Kampala which are influenced by employment of internal control system measures, that have relieved the bank off fraud, and other management loses that would accrue with the absence of strict internal control measures. Internal control system are seen to play very important role in the performance of Housing Finance bank in Kampala city as mismanagement is mitigated and performance achieved in both short-run and long-run terms.

Significant relationship between internal control system and performance of Housing Finance bank

On the significant relationship between internal control system and performance of Housing Finance bank, the study established that there is a significant positive relationship between internal control system and performance of Housing Finance bank. For example, internal control system is significantly correlated with performance of Housing Finance bank ($r=0.480$, $sig=0.002$). Basing on these results, since the sig. value (0.000) was less than 0.05 which is the minimum required level of significance in social sciences, there is a significant relationship between internal control system and performance of Housing Finance bank.

In this study, the fourth research question formulated demanded the establishment of whether there is significant relationship.

This research question was also very useful in sense that it helped in the confirmation or denial of the study hypothesis which stated that there is no significant relationship between internal control system and performance of Housing Finance bank.

The process of answering this question and confirming or denying the research hypothesis demanded the correlation of the overall mean values of the independent variable and that of dependent variable. The correlation was done by the use of Pearson's linear correlation coefficient (PLCC).

CONCLUSIONS

The purpose of this study was to test null hypotheses of no significant difference between internal control system and performance of Housing Finance bank and no significant relationship between internal control system and performance of Housing Finance bank in Kampala Uganda, to generate knowledge, validate theory and bridge knowledge gap.

On the aspect of the either confirming or denying the agency theory, by by Jensen & Meckling, (1976), it can be concluded that the theory is very relevant for this study because, the agents (managers) have more information than the principal (owners of resources) and that this information asymmetry adversely affects the principal's ability to monitor performance.

The principal therefore employs internal control system to assist in effective and efficient deployment of resources and hence monitor performance of Housing Finance bank. Internal control is used in business to address the agency problem and again studies have shown that internal control reduces agency costs.

The study tested null hypothesis of no significant relationship between internal control system and performance of Housing Finance bank, it can be said that the stated hypothesis is rejected thus, and there is clear indication that internal control system is positively significant to performance of Housing Finance bank.

Lastly, regarding the influence of internal control system on the performance of Housing Finance bank, it can be asserted that the two aspects are inseparable. This means that strong and effective internal control system enhances high performance of Housing Finance bank.

RECOMMENDATIONS

To ensure that the effectiveness of internal control system match with performance of Housing Finance Bank, there is need to focus on, follow and implement the following;

Training through seminars and conferences on some of the newly introduced internal control system should be done to bank employees and customers by the experts such that they can be adopted at the same pace.

The management can also organise some promotions on the use of internal controls at the bank. This can enable bank customers and the general public to like and bank with Housing Finance Bank.

The study recommends that there should be equal gender representation when employing human resource in public institutions in Housing Finance bank in Kampala city since the findings revealed that the majority of the respondents were males 63% % while only 37% were females. On respondents' age, the study recommends that the different working age groups should be considered while employing human resource in Housing Finance bank because the study revealed that only 4% of the respondents were below 20 years, 23% of the respondents were aged between 21-29 years, 27% of the respondents were aged between 31-39 years, 17% of the respondents were aged between 40-49 years, 21% were aged between 50-59 years, and only 8% of the respondents were above 60 years.

The study further recommends that different qualified personnel be considered while employing labour in the Housing Finance bank like the masters' degree holders and PhD holders. On this, the study found that only 8% of the respondents were certificate holders, 32% were diploma holders, 44% were bachelor's degree holders and only 16% were Masters' degree holders, with no PhD holder. The study also recommends that Housing Finance bank should keep recruiting employees since news personnel come with new innovations into the organization. The study found that; only 3% of the employees have worked in the bank for less than a year, 22% have worked with women for 1-2 years, 20% had worked for 3-4 years, and 37% of the respondents

have worked for 5-6 years, and 18% of the respondents have worked for more than 7 years.

The study recommends that the Housing Finance bank should tighten their internal control system policies so as to avoid future decline in performance which would result from weak internal control system like loss in customers' cash through ATM skipping.

The study recommends Housing Finance bank should periodically asses/evaluate their performance indicators so as to avoid any decline on performance of banks which would arise from relaxing internal control system and failure to detect and mitigate risks that would befall Housing Finance bank.

Areas of further studies

Internal control system and profitability of commercial banks

Internal control system and growth and development of commercial banks

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APPENDIX I A: TRANSMITTAL LETTER

OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND MANAGEMENT SCIENCES
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

Date: 28th May, 2012

RE: REQUEST OWINO SAMSON MBA/16870/111/DU TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing Masters of Business Administration.

He is currently conducting a research entitled **"Internal Control Systems And Performance Of Commercial Banks In Kampala, Uganda"**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.
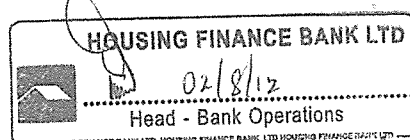
Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Head of Department,
Economics and Management Sciences, (CHDR)

NOTED BY:
Dr. Sofia Sol T. Gaite
Principal-CHDR

HOUSING FINANCE BANK LTD
02/8/12
Head - Bank Operations

Information granted in view
mandated by Hr A . Head
on 13/7/2012

Andrew Kalyembuk .

APPENDIX I B: AUTHORIZATION LETTER

**KAMPALA
INTERNATIONAL
UNIVERSITY**

Ggaba Road - Kansanga
P.O. Box 20000, Kampala, Uganda
Tel: +256 - 414 - 266813 / +256 - 772 - 322563
Fax: +256 - 414 - 501 974
E-mail: admin@kiu.ac.ug
Website: www.kiu.ac.ug

OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND MANAGEMENT SCIENCES
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

Date: 28th May, 2012

RE: REQUEST OWINO SAMSON MBA/16870/111/DU TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing Masters of Business Administration.

He is currently conducting a research entitled **"Internal Control Systems And Performance Of Commercial Banks In Kampala, Uganda"**

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.
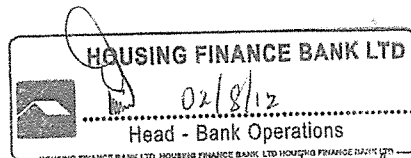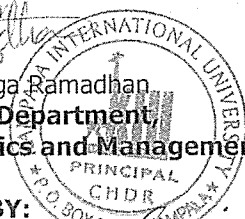
Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Head of Department,
Economics and Management Sciences, (CHDR)

NOTED BY:
Dr. Sofia Sol T. Gaite
Principal-CHDR

HOUSING FINANCE BANK LTD
02/8/12
Head - Bank Operations

Information granted in this
matter by Hon Head
in 13/9/2012

Andrew Kalyembule

APPENDIX 1C

TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear respondent,

I am carrying out a survey on internal control system and performance of Housing Finance bank in Kampala -Uganda. Please assist me in answering the questionnaire by providing the most appropriate answer in your opinion by circling, ticking or writing in the given space as the case may be .Your responses will be treated with high degree of confidentiality. The respondent is anonymous.

Thank you very much in Advance

Yours faith fully,

....

Owino Samson

APPENDIX II

CLEARANCE FROM ETHICS COMMITTEE

Date_____

Candidate's Data

Name	:	OWINO SAMSON
Reg.	:	MBA/16870/111/DU
Course	:	MBA (FINANCE AND ACCOUNTING)
Title of the Study	:	**Internal Control System and Performance of Housing Finance Bank in Kampala**

Ethical Review Checklist

The study reviewed considered the following:

____ Physical Safety of Human Subjects

____ Psychological Safety

____ Emotional Security

____ Privacy

____ Written Request for Author of Standardized Instrument

____ Coding of Questionnaires/Anonymity/Confidentiality

____ Permission to Conduct the Study

____ Informed Consent

____ Citations/Authors Recognized

Results of Ethical Review

___ Approved

___ Conditional (to provide the Ethics Committee with corrections)

___ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members _____

APPENDIX III

INFORMED CONSENT

In signing this document, I am giving my consent to be part of the research study of Mr. Owino Samson that focused on **Internal control system and Performance of Housing Finance bank in Kampala- Uganda.**

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: _____

Date_____

PROFILE OF THE RESPONDENTS

(Please Tick where appropriate)

A. Gender:

1) Male_____
2) Female_____

B. Age:

1) Below 20_____
2) 21-29_____
3) 30-39_____
4) 40-49_____
5) 50-59_____
6) Above 60_____

C. Education Level:

1. Certificate_____
2. Diploma _____
3. Degree _____
4. Masters _____
5. Others _____

D. Working experience:

1) Less than a year_____
2) 1-2 years _____
3) 3-4 years_____
4) 5-6 years _____
5) 7 years and above _____

QUESTIONNAIRES ON INTERNAL CONTROL SYSTEM

Direction 1: Please write your rating on the space before each option which corresponds to your best choice in terms of **extent of internal control system application in Housing Finance bank.** Kindly use the scoring system below:

Response Mode	Rating	Description	Legend
Strongly agree	4	Very Good	SA
Agree	3	Good	A
Disagree	2	Fair	D
Strongly disagree	1	Poor	SD

_____1. Policies and procedures exist in Housing Finance bank

_____2. The guidelines and work procedures are communicated to all staff

_____3 These guidelines and work procedures are easy to understand by all staff

___ 4. The policies are regularly reviewed and changes made known to the employed.

____5 The guidelines and work procedures are relevant to the work we do

____6 The policies help in the prevention of cash losses due to fraud.

____ 7 Duties at the banks are categorized into different levels

____8 Every employee of branch is assigned specific duties depending on job description

____9 An employee working as a teller balances and reconciles the daily deposits and withdrawals.

60

____10 Employees are trained for the work they do.

____11. Segregation of duties helps in minimizing cases of fraud and loss of cash and)ther assets

____12. Authorization by responsible persons has reduced cases of fraud and asset loss

___13. Loss of cash has reduced because withdrawals are done after authorization

___14. Loan defaulting has reduced because loans are given after authorization

___15. There are specific pre-printed stationery for various operations at banks

___16. The records kept at banks are adequate to safeguard against loss of cash.

___17. Banks have daily checkups for teller during entrance and exit to avoid cash loss

___18. Branches send reports to their headquarters once a week.

___19 Once the reports are analyzed, the findings are used for improvement.

___20. The reports help in preventing future loss of assets.

QUESTIONNAIRES ON PERFORMANCE:

Direction 2: Please use the rating guide provided below with reference to the **characteristics of the performance of Housing Finance bank.** Kindly write your scoring on the space provided before each option.

esponse Mode	Rating	Description	Legend
trongly agree	4	Very Good	SA
gree	3	Good	A
isagree	2	Fair	D
trongly Disagree	1	Poor	SD

_____21.   ICS has made the operation of the business more efficient

_____22.   Bank employees do their work with ease since they are aware of in-house olicies

_____ 23. There are minimal errors committed by the employees while on duty

_____24. There is minimum supervision by management since workers are guided by structured rules of operation

_____ 25. ICS provides timely information management

_____26. There is link between the use of ICS and enhanced business performance

_____27. ICS has a positive impact on the business

_____28. Cost of adopting a good ICS outweighs the benefits

_____29. The growing increased financial challenges influence usage of strict ICS

_____30. I am satisfied with ICS usage in my bank

_____31. There is observed transparency and management of cash in the bank due to ICS

_____32. There are least cases of misappropriation of funds in the bank

_____33. Actions are taken against any cases of misappropriation of bank funds

_____34. Cash flow (collection reports) are presented to the top management who give feedbacks based on report intended for improvement

_____35. The bank managers are given reports on cash flow and expenditures to endorse

_____36. The board and management appropriately evaluate risks when planning for new products or activities

_____37. The board and management discuss and appropriately consider control issues when planning for new products and activities

_____38. Management and the board involve audit personnel or other internal control experts in the risk assessment process

_____39. ICS have been very effective in risk management and this saves the banks from losses that would accrue

THANK YOU SO MUCH.

RESEARCHER'S CURRICULUM VITAE

PERSONAL DETAILS:

Name:	Owino Samson
Gender:	Male
Date of Birth:	24th December 1980
Marital Status:	Married
Cell Phone Number:	0779769773
Address:	P.O Box 29449, Kampala
Email:	owinosam98@yahoo.com

EDUCATION BACKGROUND

Year	Schools/Institutions	Qualifications
2011-2012	Kampala International University	Master in Business Administration (Finance & Accounting) On going
2007-2010	Kampala International University	Bachelor in Business Administration (Accounting)
2004-2006	Kyambogo University	Diploma in secondary education
2001-2002	Naalya Sec School-Namugongo	Uganda Advanced Certificate Of Education
1996-1999	Iganga Progressive Sec School	Uganda Certificate of Education
1989-1995	Maliri Primary School	Primary Leaving Examination

WORK EXPERIENCE

2011 Feb to present- Teaching Assistant Kampala International University

2010 -2011 -Accounts Assistant Planbuild Technical Services Ltd

2005-2008 Geography teacher-Comprehensive Secondary School-Tororo

Other Relevant Data

Holds certificate in:

Computerized accounting using tally – Management Training & Advisory Centre.