

**THE EFFECTS OF INTERNAL CONTROL SYSTEM TO THE IMPROVEMENT OF  
BANK PERFORMANCE IN SOUTH SUDAN, JUBA.**

**A CASE STUDY OF NILE COMMERCIAL BANK**

**BY**

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## APPROVAL

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Signature  .....

## **DEDICATION**

This treatise is dedicated to my father Kuol Deng Kuol, mother, Nyangot Abuko, brother, Wal Kuol and all my friends, for their love, support and understanding throughout the study. Without you all I would never have it. I say thank you.

May the almighty God bless you all.

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## **ABSTRACT**

Economic development of any society depends on how planning and provided adequate rewards have been organized. Employees therefore being the force behind ideal performance in the ministry should be highly rewarded to be motivated to undertake the relevant tasks diligently and with optimum results being realized.

The purpose of the study was to establish the relationship between internal control system and performance of Nile Commercial Bank in Juba city.

The study was prompted by the declining in performance in the Bank system and this was objectively observed in the last few years.

The study examined the impact of the internal control types and improvement of the Bank performance, the internal control system used by Nile commercial Bank and the weaknesses within the internal control system at Nile commercial Bank with a view to advice for improvement at functional levels.

In gathering information the research study employed both primary and secondary sources. The primary source was mainly the questionnaires and interview guides while the secondary sources were the library work and internet.

The study used descriptive survey as its research design. Four research areas in this project were identified and these provided the overall study area as a number of sampling techniques were applied to obtain relevant data.

Frequency tables, charts and graphs, means as well as Spearman's correlation coefficient were used to analyze collected data. From the findings of the study, it was revealed that employees at the Bank valued financial rewards more than non financial rewards and different employees perceive internal control differently hence a variation in their functional levels

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION**

This chapter covers the background, problem statement, purpose, specific objective, research questions, scope and significance of the study.

#### **1.1 BACK GROUND**

##### **1.1.1 Historical perspectives.**

Nile commercial Bank (NCB) was born during the civil war on 8<sup>th</sup> March 2003. At that time there were no Southern Sudanese established Banks. Its capital was obtained by selling shares to the general public. From its humble beginning, (NCB) has been able to create a more robust business spectrum in South Sudan. It has come a long way and today they have more than (20) branches in Southern Sudan in the places like Juba the capital of South, Malakal, Wau, Rumbek, Awiel, Yambio, Torit, Bor, Bentiu, Renk, Kuajok, Yei and many others branches in the Northern Sudan, Kenya and Uganda.

Today Nile Commercial Bank (NCB) is the biggest indigenous bank in Southern Sudan, with many shareholders. It is regulated by the Central Bank of Sudan as well as the Bank of Southern Sudan (BOSS) under whose jurisdiction it falls. Nile Commercial bank is licensed by the bank of Southern Sudan (BOSS) to operate as a commercial bank.

Nile Commercial Bank has a very close relationship with Stanbic Bank and is particularly close to the Stanbic of Kenya and Uganda. Stanbic is part of the Standard Bank Group LTD which has several branches distributed throughout Africa.

Internal control are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk even will be prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005). Weak or ineffective internal control system has caused losses in many Banks and has

contributed to the failure of others around the world. Some of these cases could have been prevented or discovered through effective internal control mechanism. Mayo and BPP (1998), defined the internal control as measures taken by an organization for the purpose of protecting its resources against waste, fraud and inefficiency, ensuring accuracy and reliability in accounting and operating data, securing compliance with organization policies and evaluating the accounting processes in all divisions of the organizations. However, on the other hand in its effective mission to reduce its poor performance, NCB has worked through a range of processes including improving the managerial aspect of its operational platforms. It was formed for the establishment of better banking in South Sudan and this provided total projection for both capital and commercial support. Before the transfer of the banks headquarter from Yambio to Juba the banks internal control system was very effective.

## **1.2 STATEMENT OF THE PROBLEM**

The way in which internal control systems are designed and implemented always varies in many companies and it depends on the size and complexity of industries. Different types of internal controls sometime bring about various and uncoordinated approaches in the entire business spectrum. This hence affects the way business activities are handled and the effects on business marketing spectrums are adversely interfered with the way a number of marketing concentrations were defined. This research therefore is aimed at establishing the effectiveness of internal control systems on improvement of the Bank performance at the Nile Commercial Bank Limited-South Sudan. A sound internal control system helps organizations to prevent frauds, errors and complete records of all transactions and minimize wastage of the organization's resources. It ensures custody of fixed assets, provides assurance to the management on the dependability of accounting data, eliminates suspicion and helps in maintenance of adequate and reliable accounting records. This study therefore is to establish the effects of internal control system which is the independent variable and bank performance which is dependent variable and to improve on the services offered by Nile commercial bank.

### **1.3 OBJECTIVES**

To establish the relationship between internal control system and financial performance of Nile commercial bank limited (NCB) Juba city Southern Sudan.

#### **1.3.1 Specific objectives**

- i. To identify the internal control systems used by Nile Commercial Bank.
- ii. To investigate the weaknesses within the internal control system at Nile Commercial Bank with a view to advice for improvement after the findings
- iii. To examine the impact of the internal control systems at Nile commercial limited (NCB) Juba city South Sudan.

### **1.4 PURPOSE**

The purpose of the study is to establish the relationship between internal control system and performance of NCB in Juba city

### **1.5 RESEARCH QUESTIONS**

- i. What are the internal control systems used by Nile Commercial bank?
- ii. What are the weaknesses within the internal control system at Nile Commercial bank?
- iii. What is the impact of the Internal Control Systems at Nile Commercial Limited?

### **1.6 SCOPE**

The study will be carried out at Nile commercial bank headquarters in Juba, Southern Sudan .The researcher chose the case study in Juba due to its accessibility and size. The study will cover the types of internal control system; components and tools used for evaluation of the internal control system of Nile commercial bank in Southern Sudan. The respondents for the study will cover different departments within Nile commercial bank of Southern Sudan.

### **1.7 SIGNIFICANCE**

The study will help the institutions and public in general to realize the importance of the different types of internal control systems, components and tools used for evaluation of internal control systems for example at Nile commercial bank of Southern Sudan. The study will test the hypotheses and understand from the variables

its specific influence on the internal control system in Nile Commercial Bank.

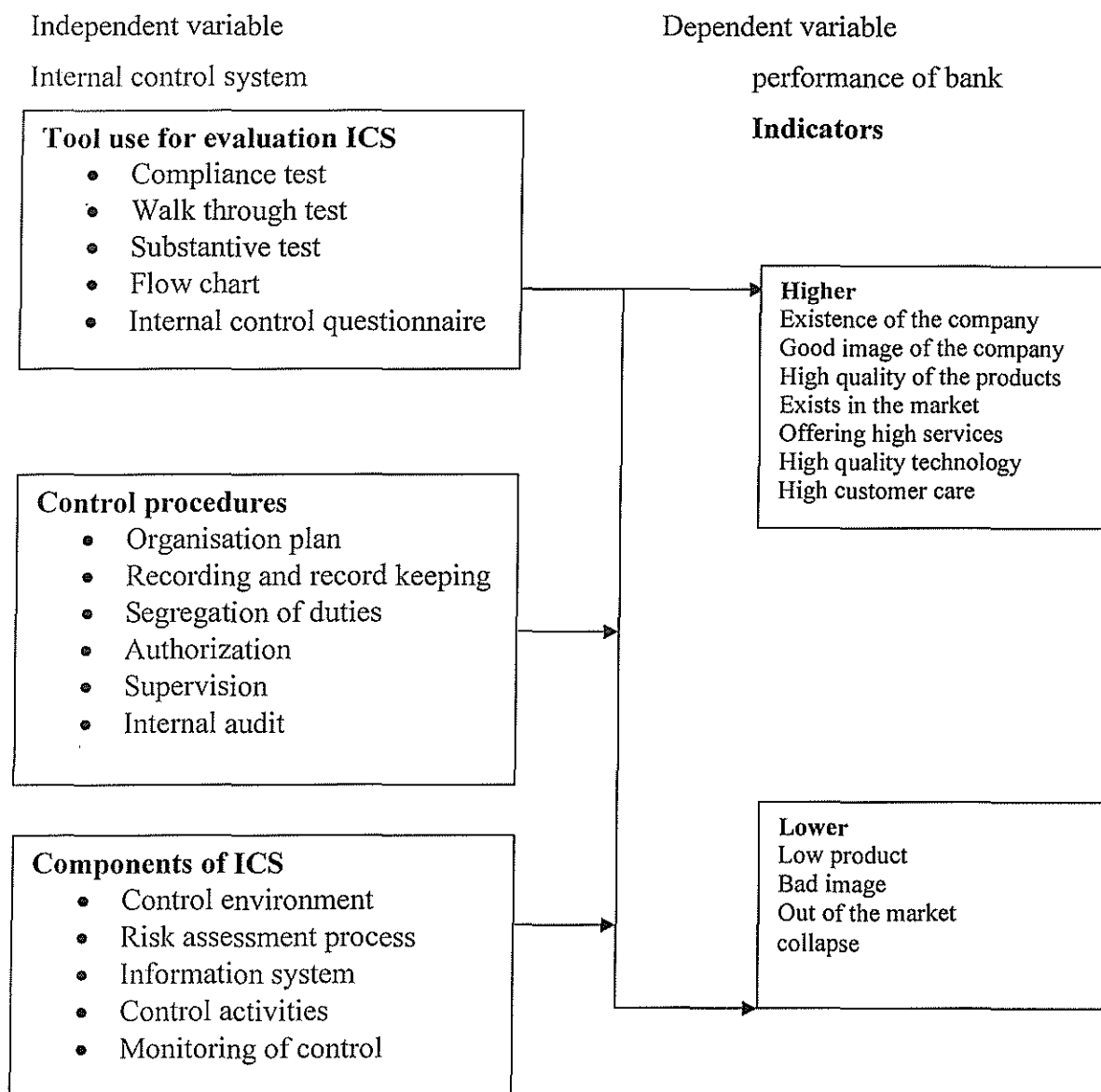
### **1.8 Conceptual frame work.**

The independent variable is the determinant in the study. The New Oxford Dictionary of English (1998:503) defined a determinant as a factor which decisively affects the nature or outcome of something. Ddumba (2004) argued that determinants of demand include factors like price of the product, preference and taste, income, population and so on. For the case of this study determinants are operationalised as interest rates provided by the NCBs, customer care provided by the NCBs and types of loans provided by the NCBs.

The dependant variable in the study is the amount demand for the required banking transactions. The New Oxford Dictionary of English (1998: 489) defined demand as the desire of the purchaser, consumers, clients, employers and others for a particular commodity, service or other item. Misra and Puri (2001:121) defined demand as effective demand which implies three things including desire for commodity, sufficient money to purchase the commodity and the willingness to spend money to acquire that commodity. In this study demand is operationalised as high or low.

The conceptual framework is now adopted from Alfred Marshal's theory of demand as demonstrated below:

## CONCEPTUAL FRAMEWORK SHOWING THE RELATIONSHIP BETWEEN INTERNAL CONTROL SYSTEM AND PERFORMANCE OF BANK



*Source: Bredey, (2000) Principle of Corporate Finance*

From Fig 2, interest is conceptualized to simple and compound interests. The rate at which the interest is charged determines the demand for the service product. The higher the interest rate the lower the demand by the customers. Customer care services like advising the customers on loan management, financial discipline, training both staff and customers on borrowing and financial management and keeping the records about customers attracts customers to demand for the services of the bank. The types of loans which are conceptualized as short term and long term loans. The terms of loans will determine the number of customers to demand for the bank services.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter introduces the frame work upon which the research is based and review of the related literature. It indicates the analysis of existing literature on the effect of internal control on the Bank performance. Therefore, the sources for collecting the information shall be based on articles, journal, magazines and books which are concern.

#### **2.1 Internal control systems.**

Internal control is the plan of organization and related method and procedures adopted within a business to safeguard its assets to enhance the accuracy and reliability of its accounting records, in short, Internal control consists of those measures designed to keep the business organisation operating efficiently and effectively by reducing risk of errors such as corruption, and fraud. According to David Mwindi (2004) it is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency.

ISA 315- understanding the entity and its environment and assessing the risk of material mis- statement defines the internal control system as the process designed and effected by these charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity objectives with regard to reliability of financial reporting effectiveness and efficiency of operation and compliance with applicable laws and regulations. Internal control consists of:

##### **2.1.1 Control environment.**

The control environment forming a base for control activities, risk assessment and monitoring information and communication link the different levels of pyramid. As the base of pyramid control environment is arguably the most important component because its sets the tone for an organization, (amin 2005) and influences the control consciousness of its people.



### **2.1.2 Risk assessment process**

Involves the means by which a business identifies and manages the risk that threatens types of organization, for example, if changing interest value rate may significantly affect the profits of the business organization. The organization should take a step to anticipate changes in rates and minimize the losses that might result in the financial reporting and communication in financial statement.

### **2.1.3 Monitoring of controls**

Which describes the procedures employed to determine that the internal control structure is working effectively; internal auditing is an example of a monitoring procedure. Internal control procedure varies from company, depending on such factors as the nature of the business and size. However, the same principles of internal control apply to all companies.

### **2.1.4 Information and communication**

The means by which the organization identifies records and communicates information to decision makers. In large part, information and communication is handled by the accounting system.

According to *Official Gazette "Valstybes zinios", 2001, No. 107-3894* (Bank of Lithuania) The present Provisions establish the objectives of the banks internal control, the main principles of its organization, and minimum requirements established for banks. Banks may establish more detailed and tight requirements for their systems of internal controls.

*Batra et al (1992)* finally emphasized that in order to arrive at the conclusion on the internal control system's effectiveness; answers to the following three questions should provide the solution to accomplish the effective internal control systems: What are the procedures normally followed?, How far are the prescribed procedures effective in creating a good and satisfactory internal control of the organization's records? And does the organization actually follow the prescribed procedures?

*William Kenney (2000)* comments further that management wants a high level of assurance that each of its information processing and related record maintenance is carefully and competently applied in an un-biased fashion. Management also wants its assets to be protected in order to fulfil its stewardship obligation to stakeholders.

Internal control over business environment thus helps to achieve real-world activities for management decision making and it's periodically compared with real world counterparts.

*Emilsyee (1993)* did a case study on internal control of the Nyayo Bus Services Corporation -Nairobi. Its objective was to document and evaluate the internal control systems of the corporation and provide recommendation towards the improvement of the existing internal controls. He used personal interviews to gather data and evaluated the same by comparing it with a sound theoretical framework of internal controls. He found out that fairly good internal controls were in place in the cash cycle. The researcher however established that the stores department had weak controls due to the less adequate segregation of duties and poor record keeping.

*William and Colby (1978)* studied internal controls of small businesses and concluded that there are contrasting factors affecting accounting controls in large and small business. They went on to suggest ways in which such controls can be strengthened. They observed that auditors should be too wary on too much reliance on executive controls in a small business. Instead the auditors should recognize the need for designing other audit procedures that will compensate for the dominance of the executive controls in the business setting.

## **2.2 Types of internal control system**

Effective internal control system operates when some specific procedures are adopted by the management. International Accounting standards (IAS) categorizes types of internal control as plan of organization segregation of duties, control of documents Safeguarding of assets, competence of staff, arithmetic/accounting control, and record keeping, supervision, authorization and approval ,vacation and rotation of duties ,cost feasibility, routine and automatic checks.

### **2.2.1 Plan of organization**

According to *Saleemi (1989)* it is an organization chart which shows the organization structure. The purpose of drawing an organizational plan is to show how the organization is divided into departments and sections and the responsibilities therefore, Authority and responsibility is clearly defined. Employees perform their duties according to organizational plan on allocated duties and responsibilities it also identifies lines of reporting for all aspects of business operations. The plan of organization therefore is needed for effective internal control.

*Spicer and Pegler (1978)* referred it as a control of the organization personnel. It defines who is who in the business. This therefore acts as a guiding tool to avoid duplication of efforts, avoid conflicting duties, facilitate delegation of duties and harmonize operations in the business. This further ensures that a chain of command and flow of authority is respected and followed

### **2.2.2 Segregation of duties**

*Adewale* said that despite banking consolidation, organizational structure and reporting lines of some banks lacked clarity and this way provided opportunities to employees to cover up fraud and losses from unauthorized activities.

The head of internal control also mentioned inadequate segregation of duties as a challenge. He also explained that due to high remuneration by some banks, fewer numbers of staff were employed to carry out multiple tasks that should be handled by separate persons.

Thus, he said that segregation of duties was lacking in those banks, which created avenue for employees with such exposure to defraud and mis-statement of financial and the bank performance.

As per *Millchamp (1999)* the term segregation of duties is used to mean the internal duties. One of the prime means of control is the separation of duties which would if combined enable one individual to record and process a complete transaction.

Segregation of duties reduces risks of intentional manipulation of accounts and increases the element of checking. Division of duties thus makes fraud more difficult to be committed because one transaction is completed by different employees.

### **2.2.3 Control of documents**

As per *Batra et al (1992)* control of documents involves the control of the organization's sensitive documents which includes receipts, cheques, local purchase orders, debit and credit notes and payment vouchers. These documents must be handled by a responsible person and should be pre-numbered to ensure control and minimize misuse. They must be kept under key and lock and must be controlled from the central point.

### **2.2.4 Physical controls**

*De Paula et al (1990)* noted that the internal controls also require that assets of the business like machinery, equipment, motor vehicles and cash should be kept safely. The access to these assets should be limited to authorized personnel only. The procedures designed and security measures taken for safeguarding these assets should be comprehensive and adequate. For instance cash and stock should be under the custody of somebody who is reliable. The physical controls common in businesses are employment of security personnel, alarm systems, strong electrified gates, strong rooms and safes, strong fences and security lights.

This involves the actual process by which an asset is used for its intended purpose and ensuring it contributes a lot to the organization before it can be disposed off written off. It involves securing assets against, misuse and physical attack. The objectives of physical controls are to ensure proper authorization, ensure assets are properly maintained and used rightfully, proper accountability and record management of these assets.

### **2.2.5 Competence of staff**

According to *Spicer and Pegler (1978)* the proper functioning of any system depends on the competence and integrity of those operating it. The staff employed in the organization should be competent and experienced.

*Manasseh (1990)* said that the organization should employ qualified, experienced, competent and motivated employees who have interest in what they are doing and the organization should regard its employees as its valuable assets. These employees must be reliable and responsible in order to ensure efficiency in the business operations. Any good internal control system must be manned by reliable personnel who are

qualified and competent.

Competence of the staff refers to the willingness of the staff to perform duties as required without any close supervision. To instil this spirit of competence among them requires that the staff should be motivated through rewards, promotions and recognition element in the course of executing their duties.

#### **2.2.6 Arithmetic and accounting controls**

*Woolf (1997)* noted that these are internal controls aimed at ensuring the accuracy of transactions and also ensures proper recording of the organization's transactions according to the Generally Accepted Accounting Principles (GAAP). He further argued that internal controls are usually boosted by the use of calculators and computers. He noted also that while examining the system of internal control the auditors should consider the possibility of collusion between close relatives working in related parts or departments of the organization.

According to *Saleemi (1989)* the recording of business transactions should be accurate and arithmetically correct. For this purpose some controls are introduced for example checking totals, reconciliation, control accounts and trial balance. An effective internal control requires proper implementation of arithmetical and accounting controls. He concluded by saying that the auditor has to examine the adequacy of the internal control system differently for different organizations.

#### **2.2.7 Supervision**

*Day-to-day transactions and their recording and operations of the company should be subjected to supervision by competent responsible officials. Manasseh (1990)* also suggested that any system of control should include supervision of day-to-day transaction. This is hence achieved by responsible officer and according to these transactions for instance the working hours of employee recorded and should be checked or inspected by the supervisor.

According to *Millichamp (1999)*, supervisors must be vigilant in their duties and ensure that people under their supervision perform their duties as per the laid down

organizational policies and this supervision must be done in the human-way so as to promote morale among the employees and avoid apathy or frustration among those under supervision. He further noted that management should check internal statements, budget controls and standard costing statements and review departmental procedures and functions. This gives operational efficiency and should be done by higher authorities like internal auditors and managers

#### **2.2.8 Authorization and approval**

*Woolf (1997)* said that all transactions must be authorized and approved by the right and responsible organizational officer. This is aimed at preventing fraud and safeguarding the assets of the organization. It stimulates the flow of authority to avoid bureaucracy and conflicting authorized activities. For example the purchase order should be approved before money is paid. Similarly payment of wages should be approved before money is withdrawn. Internal control requires a proper system of authorization and approval. The basic objectives of authorization and approval are to avoid fraud instances and safeguard the company assets.

#### **2.2.9 Vocational and rotation of duties**

*Manasseh (1990)* noted that the organization must give a compulsory leave especially to the accounting staff who should not overstay their leaves. This is aimed at checking the efficiency of the officer in the business in their absence thus minimizing errors and fraud and boosting the efficiency of the employees. The employees should be rotated in different departments but doing jobs which are related to areas of their specialization.

#### **2.3.0 Cost feasibility**

*Batra et al (1992)* noted that the system to be installed must be within the limits affordable by the organization and its costs must not outweigh the benefits to be derived from such type of internal control. Regarding cost feasibility, the cost benefit analysis should be used to weigh the advantages and disadvantages of the undertaking.

### **2.3.1 Routine and automatic checks**

According to *Saleemi (1989)*, the internal controls should take room for surprise checks especially for such items as petty cash, stock control, salaries and wages payment. These will prevent errors and frauds, promote morale and efficiency.

## **2.4 PRINCIPLES FOR INTERNAL CONTROL SYSTEMS**

The main principles of this instruction are derived from: the Framework of Internal Control Systems in Banking Organizations, Publication No. 40, dated September (1998), of The Bank for International Settlements, Basel Committee on Banking Supervision and are Supplemented with specific requirements of the CPO for implementation by banks.

Through this instruction, the CPO does not prescribe in detail the manner in which each Individual bank should implement its own system of internal controls. The applicability of the main principles of this instruction to each individual bank depends on the nature. Complexity and risks of each bank's activities. However, the CPO requires that each bank have an appropriate system of internal control, which adheres to these fundamental Principles.

### **2.4.1 Management Oversight and the Culture of Control**

According to the Basel committee of Banking Governing Board is responsible for:

Approving and periodically reviewing the overall business strategies and policies of the bank.

Understanding the major risks faced by the bank, setting acceptable levels for these risks, and ensuring that bank administrators take the steps necessary to identify, measure, monitor and control these risks.

Maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; Ensuring that delegated responsibilities are effectively carried out;

Setting appropriate internal control policies;

Ensuring that bank administrators monitor the effectiveness of the internal control system. Board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

#### **2.4.2 Monitoring the adequacy and effectiveness of the internal control system**

The Governing Board and Senior bank administrators are responsible for Promoting high ethical and integrity standards, and for establishing a culture within the organization of the bank that emphasizes and demonstrates to all levels of Personnel the importance of internal controls. Bank personnel must be informed of, and held responsible for, their role in the internal controls process.

#### **2.4.3 Risk Recognition and Assessment**

According to **Fernando De Peralto** all material risks that could adversely affect the achievement of the bank's goals should be recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization (credit risk, country and transfer risk market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputation risk). Internal controls should be revised to appropriately address new or previously uncontrolled risks.

#### **2.4.4 Control Activities and Segregation of Duties**

According to Central Payments Office of East Timor

Sections 23.1, 27.1 (e), and 31.1 of *Regulation No. 2000/8 on Bank Licensing and Supervision* Control activities should be an integral part of the daily activities of a bank. An appropriate control structure should be established with control activities defined at every sector of the bank's operations. The control structure should include: Top level reviews where an adequate management information system should exist for the Governing Board and senior bank administrators to review the banks progress toward established goals.

Segregation of duties which also includes internal check, which refers to the activities of one person being complementary to the activities of another. This ensures that the work of every individual comes under the independent check of another person.

#### **2.5 Internal check**

Batrà et al (1992), internal check refers to the checks of the day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another. The



objective is the prevention of or early detection of errors and fraud. It includes matters such as delegation and allocation of duties, authority and division of work, the method of recording transactions and the use of independently ascertained totals against which a large number of individual items can be proved.

*Spicer and Pegler (1978)* defined the internal check as an arrangement of staff duties whereby no one person is allowed to carry out all sanative duties through the company. This is hence involve the management of relevant ideologies in banking and record every aspect of a transaction so that without the collusion between the two or member.

material mis- statement defines the internal control system as the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting effectiveness and efficiency of operation and compliance with applicable laws and regulations.

*Batra et al (1992)* finally emphasized that in order to arrive at the conclusion on the internal control system's effectiveness; answers to the following three questions provide the solution to accomplish the effective internal control systems: What are the procedures normally followed? How far are the prescribed procedures effective in creating a good and satisfactory internal control of the organization's records? Does the organization actually follow the prescribed procedures?

*William Kenney (2000)* comments further that management wants a high level of assurance that each of its information processing and related record maintenance is carefully and competently applied in an un-biased fashion. Management also wants that its assets are protected in order to fulfil its stewardship obligation to stakeholders. Internal control over business environment thus helps to achieve real-world activities for management decision making and it's periodically compared with real world counterparts.

*Emilsyee (1993)* did a case study on internal control of the Nyayo Bus Services Corporation -Nairobi. Its objective was to document and evaluate the internal control systems of the corporation and provide recommendation towards the improvement of the existing internal controls. He used personal interviews to gather data and

evaluated the same by comparing it with a sound theoretical framework of internal controls. He found out that fairly good internal controls were in place in the cash cycle. The researcher however established that the stores department had weak controls due to the less adequate segregation of duties and poor record keeping.

*Batra et al (1992)*, noted that the objectives of internal check is to make chances of fraud on part of any staff difficult, easy detection of any act of dishonesty and irregularity, detection of errors and assurance that all material facts are promptly recorded in their books of prime entry and included in the final financial records of the organization for managerial decisions.

## **2.6 Internal audit**

*Millichamp (1999)* noted that internal audit is aimed at ensuring that management operates efficiently so as to manage the business better. It's a managerial tool that acts as watch dog over the organization's entire internal control system.

Woolf (1997) defined it as an independent appraisal of activities within an organization for the review of accounting, financial and other business practices. It's conducted by the employees of the organization and helps management to evaluate the performance and efficiency of established procedures.

Batra et al (1992) said that internal auditing is an evaluation and analysis of the business operations conducted by the internal audit staff. The objective of the internal audit is to assist all members of the management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. The attainment of the overall objective includes activities such as reviewing and appraising soundness and adequacy of internal control procedures and adherence to the laid down policies and plans of the organization.

## **2.7 Evaluation of internal controls systems**

*Batra et al (1992)* said that the system of internal control should be reviewed at the beginning of the audit. This should be done in order to arrive at a decision regarding the amount of detailed examination. It's to be performed during the audit to ascertain

the weakness or strength of the system as one of the basis of expressing the opinion concerning their presentation of financial statements and record management. An auditor will normally initiate his review of internal control before engaging the check. Conclusions concerning the internal controls affect the scope of the examination by an auditor. Many auditors interweave their review and evaluation of internal control with the audit process.

#### **2.7.1 Substantive tests**

Substantive procedures (or substantive tests) are those activities performed by the auditor during the substantive testing stage of the audit that gather evidence as to the completeness, validity and/or accuracy of account balances and underlying classes of transactions.

Management implicitly asserts that account balances and underlying classes of transaction do not contain any material misstatements: in other words, that they are materially complete, valid and accurate. Auditors gather evidence about these assertions by undertaking activities referred to as substantive procedure

#### **2.7.2 Walk through test**

A walk-through test is a procedure under financial audit performed by auditors.

The purpose of walk-through tests is for the auditors to establish the reliability of a client's accounting and internal control procedures; it is common for walk-through tests to be performed as tests of controls.

Auditors trace a number of transactions through the financial system from source to ultimate disposition.

#### **2.7.3 Compliance tests**

It's basically an audit of a system earned out against a known criterion. A compliance test may come in many different forms dependant on the request received but basically is broken down into several different types:

Operating Systems and Applications: A verification that an operating system and/or applications are configured appropriately to the companies' needs and lockdown

requirements, thus providing adequate and robust controls to ensure that the Confidentiality, Integrity and Availability of the system will not be affected in its normal day to day operation.

Systems under development: verification that the intended system under development meets the configuration and lockdown standards requested by the customer.

Management of IT and Enterprise Architecture: A verification that the in-place IT management infrastructure encompassing all aspects of system support has been put in place. This is to ensure effective change control, audit, business continuity and security procedures etc. have been formulated, documented and put in place.

Interconnection Policy: A verification that adequate security and business continuity controls governing the connection to other systems, be they Telecommunications, Intranets, Extranets and Internet etc. have been put in place, have been fully documented and correspond to the stated customer requirements.

A normal compliance check will encompass some if not all of the types listed above. I will mostly discuss the lockdown policies that can be applied, (or have been applied), to the underlying operating system and applications. There are a plethora of these about, some provided by vendors, some from other respective parties. The ones listed below are just a sample of what is available online, there are many more. They could be consulted as a reference and used as guidance by customers when you have performed a Compliance Check but also possibly after a Vulnerability Assessment or Penetration Test so that they can apply extra security measures to their enterprise to enhance its security. With the ones quoted, I am just detailing generic Security settings and recommendations that you could apply and audit against, there are also country specific human relations and statutory regulations that you also must adhere to which these guides do not cover.

## **2.8 Impact of internal control system on financial performance.**

A sound internal control will bring the success in the business, as said by Saleemi (1989) that the adoption of a sound internal control will ensure success in business. The information obtained from a sound internal control as reflected on the financial

statement will provide a report on the entity's financial performance and financial position that is a reflection of proper stewardship.

Internal controls detect the error and fraud, the De Paula et al (1990) said that the impact of a sound internal control system is to detect and prevent errors affecting the financial statement and hence financial performance of the enterprise. He added that the reasonability of detecting and preventing errors and frauds rests with management of an organization.

Haylas and Aston (1992), researched on the effectiveness of particular audit techniques in detection of errors that affects the financial statements and their causes. They concluded that the intentional errors are concentrated on a few audit areas and that large portions of financial errors are signalled by less rigorous audit procedures such as analytical review and discussion with the client.

### **2.8.1 Important of internal control systems.**

From the definition of the internal control system we can pick up the following as the reason why it is important for an organization to have an internal control system.

The internal control system enables management to carry out the business in an orderly and efficient manner.

Internal controls lay out the various procedures to be followed in conducting the affairs of the organization, e.g. there will be procedures laying out the procurement of raw material to ensure that only necessary material are bought which meet the quality standards of company.

### **Ensure adherence to management policies.**

Management policies vary from the broad objectives to the detailed policy matters necessary to make those objectives reliable. Internal controls also serve as a check to ensure that management policies are followed.

### **Safeguarding the company assets**

Some controls are designed specifically to ensure that the assets of the company are protected from theft, destruction and that they are used in the best interest of the company.

The internal control help in ensuring completeness and accuracy of the accounting records maintained. The company Act requires that a company keep proper books of accounts. These records are the basis for the preparation of the financial statements.

Internal control assists in ensuring that the organization complies with the applicable laws and regulations. For example, management review ensures that all relevant taxes are paid.

### **2.8.2 Limitation of the internal control system.**

The limitations of the internal control system due to the following inherent limitation of transaction internal control system that led some companies not to performance their financial effectively and efficient.

Most internal control tends to be directed towards routine transaction rather than non routine transaction; this leaves gaps that can be exploited because the non routine transaction will not be subjected to appropriate control.

Human error due to carelessness, distraction, mistakes of judgement and misunderstanding instruction could undermine the effectiveness of the internal control.

A member of management or an employee would circumvent controls through collusion with persons outside or inside the entity e.g. where duties are segregated the employees could collude to perpetrate and conceal a fraud. Abuse of responsibility of member of management overriding internal control. Where by the manager cannot follow the rule and regulation of the company. Management has to ensure that, the benefits expected from an internal control system out weight the cost as a result certain important control might not be put in place due to the cost involved.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter covered the proposed design, population, sampling strategies, data collection methods, data collection instruments, data quality controls, procedure and data analysis.

#### **3.1 RESEARCH DESIGN**

The study was based on a quantitative, qualitative, and correlation, cross sectional survey. The quantitative paradigm was used as the techniques and measurements that produced numerical or quantifiable data. Further, statistical tools were used for analysis said by (Mugenda & Mugenda, 2003).

In this study correlation was used in order to determine or describe in quantitative terms the degree to which the variables are related, that is the degree to which determinants is related to demand (Amin, 2005:218). The study was surveyed in order to obtain descriptions of a particular group of individuals and cross sectional survey in that, it was used to gather data from a sample of the population at a particular time (Amin, 2005:212) the study was qualitative in order to obtain in-depth feelings of respondents (Amin, 2005).

#### **3.2 RESEARCH POPULATION**

In this study, the target population involved 45 staff from customer care department, Financial Controllers, Credit Department and the Bank's Clients which will amount to 150 respondents. All these respondents were involved because they either keep records about loans (staff) or borrow loans from Nile Commercial Bank

#### **3.3 Sample and sampling procedures**

##### **3.3.1 Sample size**

The study was based on sampling because of the large number of the target population. Using Krejcie and Morgan (1970) as cited in Amin (2005:454), the sample size for Customer care – 12, Financial Controllers-4, Credit managers-9, Bank

Customers-15. The total sample size is 40. The list of staff's customers from open access and loan services will enable the use of simple random sampling in the study Amin (2005). Each category of the respondents (staff, open access customers and loan service customers) was stratified according to staff, open access and loan services. Random sampling will then be used for each stratum sampling frame.

### **3.3.2 Sampling procedure**

The sampling procedure used was purposive sampling to obtain the sample from the Nile Bank. Simple random sampling was used to select respondents from the relevant bank departments to avoid biased information. This ensured that all the participants in the bank were represented.

The researcher also used observation schedules in order to obtain the data necessary to answer the research questions in order to achieve the objectives of the study.

The questionnaires were distributed to the relevant departments because they were the ones who could give in-depth information concerning the effects of internal control to improve bank performance at Nile Bank, South Sudan.

At least four financial controllers were randomly selected from the bank while the credit managers were 9. Customer care department had 12 respondents while Bank's clients were 15. This formed the total sample procedure for the study.

## **3.4 DATA COLLECTION METHODS**

Primarily, Self Administered Questionnaires (SAQs) was used because of their nature of use of one time data collecting device on the variables of interest in the study (Amin, 2005). Each item on the questionnaire was developed to cover the specific objectives, research questions and hypotheses under study (Mugenda & Mugenda, 2003:71).

## **3.5 DATA COLLECTION INSTRUMENTS.**

The SAQ was composed of 3 sets. One set was directed to staff, open access customers and loan services department. Each questionnaire consists of a title, and introduction, questions on dependent variable that is demand which was conceptualized in to high and low. Questions on the independent variable that is



determinants were conceptualized in to the interest rates, types of loans and the customer care as indicated. All questionnaires have a classification item which helps to identify the respondents from the various sections like staff, open access customers and loan service customers. There are both open ended questions to obtain the in-depth feeling of respondents and close ended questions for easy administration.

### **3.6 Validity and reliability of instruments**

#### **3.6.1 Validity**

According to Moser and Kalton (1971), validity is the success of a scale in measuring what it was set out to measure so that differences in individual scores can be taken as representing true differences in characteristics under study.

The researcher consulted statistical specialists and her supervisor who ensured the relevance and suitability of the content in the questionnaire would provide coverage of the objectives of the study.

The validity of the questions was checked by the responses acquired and the content validity index. The validity of the questionnaire was affected by employing the formula below:

$$\text{CVI} = \frac{\text{No of valid items}}{\text{Total number of items}}$$

CVI means content validity index

$$\begin{aligned}\text{Therefore CVI} &= \frac{37 \text{ (valid items)}}{40 \text{ (No of items)}} \\ &= 0.92\end{aligned}$$

A valid item is an instrument whose content response can be analyzed statistically and is obtained by considering correct responses in the questionnaire.

To Amin (2005) for instruments to be accepted as valid, the average content validity index (CVI) should be 0.7 or above. Hence the contents of the instruments were valid.

#### **3.6.2 Reliability**

Reliability was a measure of the degree to which a research instrument yielded consistent results after repeated trials. According to Christensen (1988), reliability refers to consistency and stability in measurements. To establish the reliability of the

questionnaire, the researcher used the methods of expert judgment (supervisor and colleagues) and pre-test in order to test and improve the reliability of the questionnaire. The respondents of the pre-test were not the study participants but the bank employees who provided relevant and updated information on bank performance internal controls.

### **3.7 Data gathering procedures**

The researcher distributed the questionnaires to relevant bank departments after the pre-test exercises. The questionnaires were delivered and collected by the researcher in person.

The project was submitted to school of business and management. The researcher then obtained a letter of introduction as a student carrying out research for academic purposes from school of business and management .the researcher then sought permission to conduct the study from the authorities of NCB.

### **3.8 Data Analysis**

The SAQs which had complete data were edited, categorized and entered in computers for SPSS to summarize them using simple and complex frequency tables or cross tabulation. The computation of relative frequencies, mean, standard deviation and other relevant statistics was done using the same package of SPSS at unvaried level. At bi-vitiate level demand will be correlated with the respective concepts of determinants (interest rates, types of loans and customer care).

### **3.9 Ethical Consideration**

After pre-testing of the questionnaire the researcher sought permission from the relevant authorities to conduct the study. The researcher justified himself when approaching the bank administration in order for them to believe that the study was being carried out purely for academic purposes. The university (KIU) had offered the researcher an introductory letter requesting the bank to assist by supplying the required information for the study.

Also the researcher promised the respondents that their identity could not be disclosed as there were no writing of names on the questionnaires and that everything was to be confidential. The researcher gave the respondents the true facts about the research in order to make informed decisions about participating or not.

### **3.10 Limitations of the study**

Some of the limitations encountered included incorrect responses by some respondents due to fear by the banking administration to provide relevant and adequate information.

Also there was a lot of silence and lack of goodwill among the staff which made the atmosphere unfavourable for the researcher when he was collecting the questionnaires from the selected bank departments

However, the problems were overcome as the researcher became patient and rescheduled the appointment.

## CHAPTER FOUR

### PRESENTATION AND ANALYSIS OF FINDINGS

#### 4.0. Introduction

This chapter presented 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 performance of commercial banks.

The data collected from the field was processed and analyzed, qualitatively and quantitatively. The qualitative approach used in analysis provided more clarification and explanations on quantitative data. Quantitative information summarized by using tables and percentages to show the response of the respondents. All of these findings were interpreted and presented, through re-examining research objectives.

#### 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.

**Table 4.1: shows the age of the respondents**

Age (years)	18 - 24	25 - 30	31 – 36	37 - 42	Above 43	Total
Frequency	6	6	8	5	5	30
Percentage (%)	15	15	40	20	10	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 40% of the respondents. Other age groups individually comprised of 15%, 20% and 10% who in total made a total of 60%.

**Table 4.3 shows the marital status of the respondents**

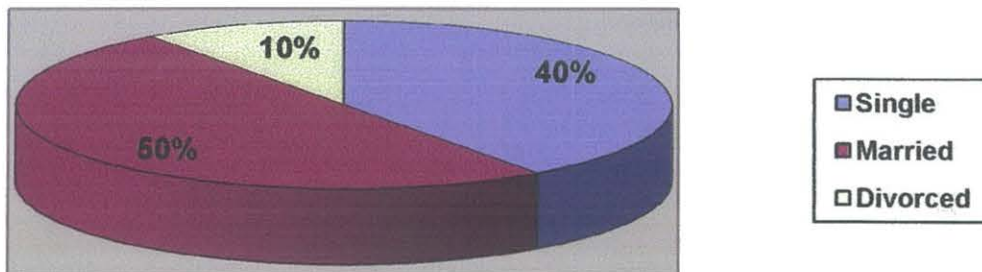
Marital status	Single	Married	Divorced	Total
Frequency	10	14	6	30
Percentage (%)	40	50	10	100

**Source: primary data**

The table above reveals the marital status of the respondents of the questionnaires. Out of twenty respondents, eight (8) were single, ten (10) were married and two (2) were divorced. In terms of percentage, the respondents may be represented by 40%, 50% and 10% respectively.

**Figure 2: shows the Marital status of the respondents**

**Fig 2: The pie chart showing the marital status of the respondents**



**Source: primary data**

The pie chart above shows the marital status of the respondents of the questionnaires. Out of twenty respondents, eight (8) were single, ten (10) were married and two (2) were divorced. In terms of percentage, the respondents are represented by 40%, 50% and 10% respectively.

Table 4.2 shows the gender of the respondents

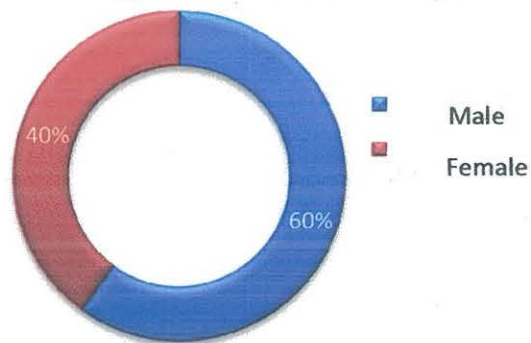
Gender	Male	Female	Total
Frequency	20	10	30
Percentage (%)	60	40	100

Source: Primary data

Table 4.2 shows the gender ratio of the respondents. The table reveals that out of 20 respondents who were randomly selected to answer the questionnaires, 12 of them were males and 8 of them were females. This means that on this basis, 60% of the respondents on the questionnaires were males while 40% of the respondents were females.

Figure 1: shows the percentage Gender of respondents

is The Doughnut chart showing the percentage Gender of respondents



Source: primary data

The pie chart above reveals that out of 100% respondents who were randomly selected to answer the questionnaires, 60% of them were males and 40% of them were females. This means that on this basis, 60% of the respondents on the questionnaires were males while 40% of the respondents were females.

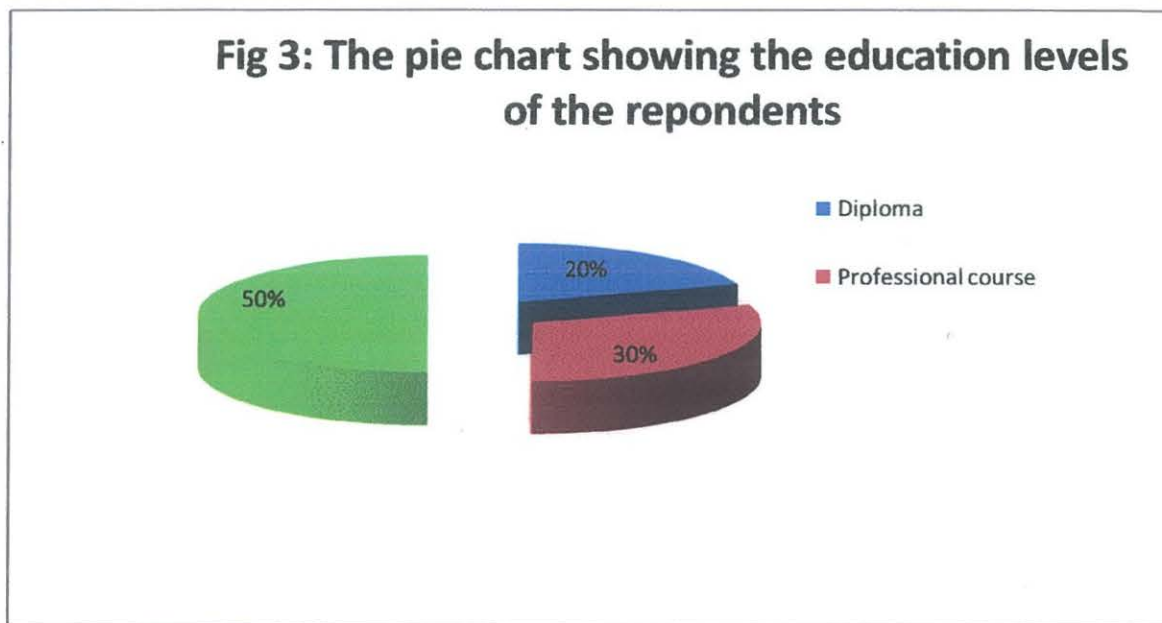
**Table 4.4 shows the level of education of the respondents**

Education Level	Diploma	Professional course	Bachelor in A/c field	Total
Frequency	6	10	14	30
Percentage	20%	30%	50%	100%

**Source: Primary data**

The above table describes the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 20% possess diploma course certificate, 30% possess professional course of CPA (U) and 50% possess bachelor's degree in Accounting and Finance.

**Figure 3: shows the Education levels of the respondents**



**Source: primary data**

The above pie chart shows the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 20% possess diploma course certificate, 30% possess professional course of CPA (U) and 50% possess bachelor's degree in Accounting and Finance.



#### 4.2 Relationship between internal control systems and performance

Explanatory studies were used to establish the relationship between internal control systems and organization performance. Different variables that should influenced the internal control system of any organizational performance should measured to improved. It was observed that, there was a significant relationship between internal control system and organization performance.

The findings pertained to the objectives and were presented and interpreted as shown hereunder:-

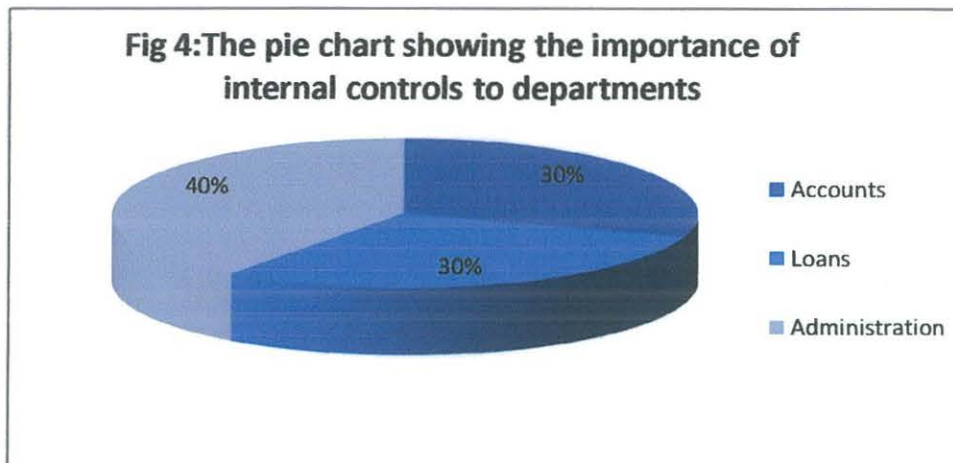
**Table: 4.5 shows the importance of internal controls to departments**

Department	Accounts	Loan	Administration	Total
Frequency	8	8	14	30
Percentage (%)	30	30	40	100

**Source: primary data**

The table above shows the importance of internal controls to different departments at Nile Commercial Bank. Out of the total respondents of twenty people, six (6) said internal controls are important to Accounts and Loan departments and eight (8) respondents said it is important to administration department. In terms of percentage, these respondents may be represented by 30%, 30% and 40% respectively.

**Figure 4: Shows the importance of Internal controls to departments**



**Source: primary data**



The pie chart above shows the importance of internal controls to different departments at Nile Commercial Bank. Out of the total of 100%, 30% said internal controls are important to Accounts and Loan departments and 40% of the respondents said it is important to administration department.

**Table 4.6** shows whether there are internal controls in place in Nile Commercial Bank

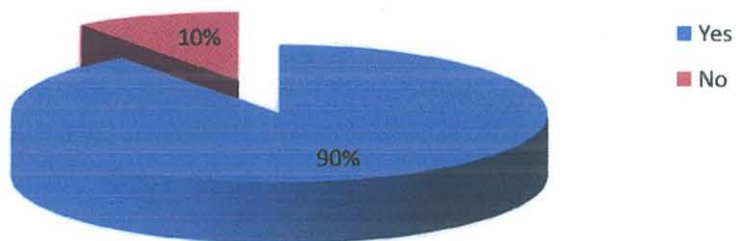
Responses	Yes	No	Total
Frequency	26	4	30
Percentage (%)	90	10	100

**Source: primary data**

The table above shows that there are internal control systems in place in Nile Commercial Bank. Out of twenty (20) respondents, eighteen (18) said there are internal control systems in place and only two (2) said there are no internal control systems in place in Nile Commercial Bank. In terms of percentage, these respondents are represented by 90% and 10% respectively.

**Figure 5: Shows Whether there are internal controls in place in Nile Commercial bank**

**Fig 5: The pie chart showing whether there are internal controls in place in Nile Commercial Bank**



The pie chart above shows that there are internal control systems in place in Nile Commercial Bank. Out of 100% of the respondents, 90% said there are internal control systems in place and only 10% said there are no internal control systems in place in Nile Commercial Bank.

**Table 4.7 shows how internal controls are related to performance**

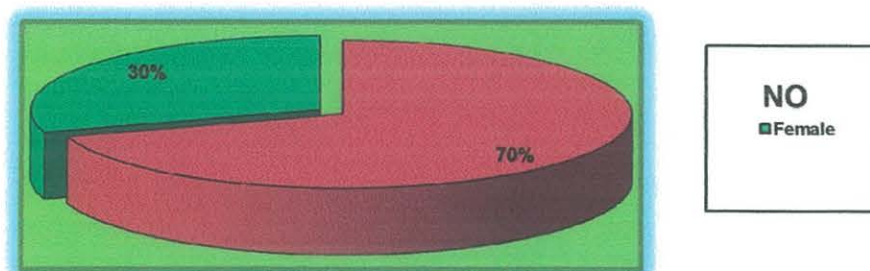
Responses	Yes	No	Total
Frequency	25	5	30
Percentage (%)	70	30	100

**Source: primary data**

Table 4.7 shows how internal control systems are related to performance in an organization like Nile Commercial Bank. The table reveals that out of 20 respondents, who were randomly selected to answer the questionnaires, 14 of them said internal controls are related to performance in Nile Commercial Bank and 6 said internal controls are not related to performance in Nile Commercial Bank. This means that on this basis, 70% of the respondents on the questionnaires said yes while 30% of the respondents said no.

**Figure 6 : shows Internal controls are related to performance in Nile Commercial Bank**

**Fig 6: The pie chart showing internal controls are related to performance in Nile Commercial Bank**



The pie chart above shows how internal control systems are related to performance in an organization like Nile Commercial Bank. The pie chart reveals that out of 100% of the respondents who were randomly selected to answer the questionnaires, 70% of them said that internal controls are related to performance in Nile Commercial Bank and 30% said internal controls are not related to performance in Nile Commercial Bank.

**Table 4.8 Shows the categorization of internal control systems**

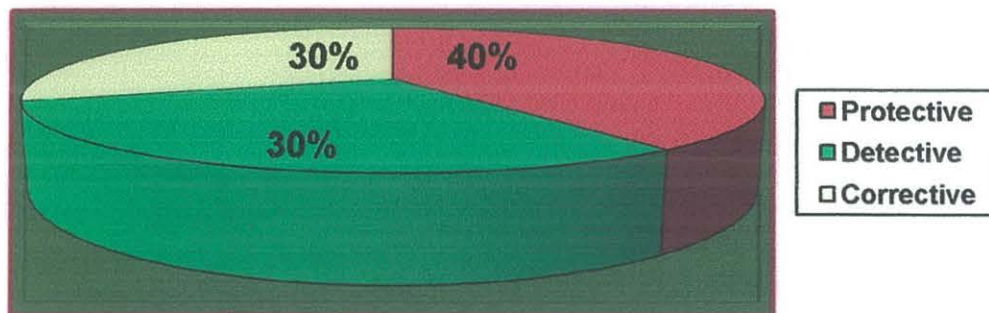
Categories	Protective	Detective	Corrective	Total
Frequency	14	8	8	30
Percentage (%)	40	30	30	100

**Source: primary data**

The table above describes the categories of internal control systems in Nile Commercial Bank. Out of the total respondents, eight (8) said protective, six (6) said corrective and detective internal control systems are used in Nile Commercial Bank. In terms of percentage, these may be represented by 40%, 30% and 30% respectively.

**Figure 7: Shows the Types of Internal control System**

**Fig 8: The pie chart showing the types of internal control system**



**Source: primary data**



The pie chart above describes the categories of internal control systems in Nile Commercial Bank. Out of the total respondents, 40% said protective, 30% said corrective and detective internal control systems are used in Nile Commercial Bank.

**Table 4.9** Table suggests whether there are internal control procedures

Responses	Yes	No	Total
Frequency	27	3	30
Percentage (%)	85	15	100

**Source: primary data**

In the determination of the whether there are internal control procedures for the types of internal control systems, out of twenty respondents; 17 said yes and three respondents said no. This may be expressed in percentage form as 85% of the total respondents said yes and only 15% said no. This influenced the researcher to accept that internal control procedures were used for all the three types of internal control systems. For good visual impression of the findings, these are presented with the aid of a pie-chart.

**Figure 8: Shows the whether there is Internal Control**



**Source: primary data**

In the determination of the whether there are internal control procedures for the types of internal control systems, out of the total 100% respondents; 85% said yes and 15% of the respondents said no. This influenced the researcher to accept that internal control procedures were used for all the three types of internal control systems.

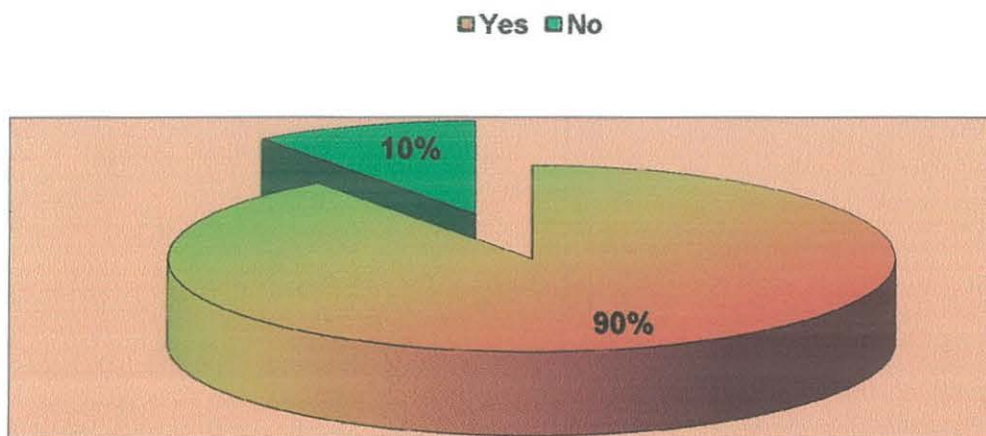
**Table 4.10 Shows whether the management of Nile Commercial Bank is doing something in order to address the problems faced in the implementation of internal control systems**

Responses	Yes	No	Total
Frequency	26	4	30
Percentage (%)	90	10	100

**Source: primary data**

The table above shows what the management of Nile Commercial Bank is doing in order to address the problems faced in the implementation of internal control systems. Out of twenty (20) respondents, eighteen (18) said yes and only two (2) said no. In terms of percentage, these respondents are represented by 90% and 10% respectively.

**Figure 9 : Shows what the management of Nile Commercial Bank is Doing in order to Address the problem**



The pie chart above shows what the management of Nile Commercial Bank is performing in order to address the problems faced in the implementation of internal control systems. Out of the total 100% of the respondents, 90% said yes and only 10%) said No. This made the researcher to conclude that Nile Commercial Bank is using detective, preventative and corrective measures when implementing internal controls.

**Table 4.11 shows the implementation of internal control process, policies and Procedures**

Responses	Yes	No	Total
Frequency	28	2	30
Percentage (%)	90	10	100

**Source: primary data**

Reporting on the question which wanted the respondents to identify whether proper internal control processes, policies and procedures were implemented in the organization, eighteen (18) respondents which made a percentage of 90% accepted and they further explained both administrative and accounting control were practiced in the organization. They enumerated a number of processes, policies and procedure followed which reflected the concept of internal control system. These processes, policies and procedures included plans of organization, separation of duties, rotation and vacation and physical controls.

At the same time, two respondents which made a total percentage of 10% said there were no internal control process, policies and procedures which are implemented in the organization. Since there were few respondents who said there were no internal control implementation process of the controls, this evidenced that there was a possibility of poor implementation of the policies, processes and procedures which aimed at attaining strong and sound internal control system.

**Table 4.12 other controls other than physical and security control**

<b>Apart from physical control and security on cash do you have any other system of control in authorization of cash and other disbursement?</b>				
Responses	Yes	No	Not sure	Total
Frequency	24	2	4	30
Percentage	75	10	15	100

**Source: primary data**

The table above revealed that fifteen (15) respondents who made 75% acknowledged the above question by saying yes. The respondents went an extra mile by explaining the other systems of control in authorization of cash and other disbursement such as

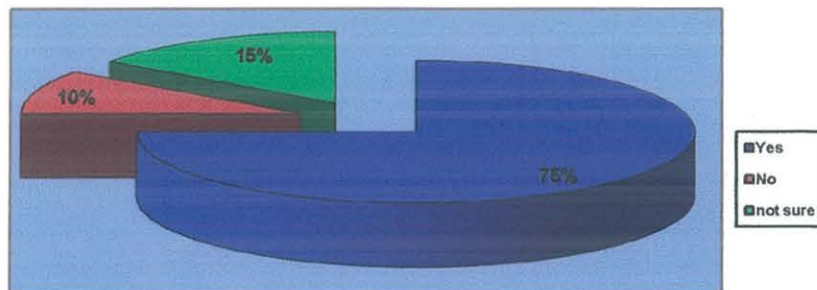
job rotation and vacation, approval and supervision which served as administrative control.

Two respondents who made 10% declined that there are no other systems of control in place apart from physical control and security. This implied that the respondents were not aware of the other systems of control in place apart from physical and security controls.

The other three respondents who made 15% were not sure or aware of the other systems of control in authorization of cash and other disbursement. This was generally taken to be lack of education particularly on internal control system.

**Figure 10 : Shows the other Controls other than Physical and Security Controls**

**The pie chart showing other controls other than physical and security controls**



**Source: primary data**

From the pictorial representation we, can see that 75% of the total respondents said there were other internal controls other than physical and security controls. 10% of the respondents disagreed that there were no other controls other than physical and security. They further explained that, there are some instances which indicated the possibility of fraud or embezzlement which proved that the controls in place were not satisfactory. Further more, additional 10% of the respondents were not sure whether there were other controls other than physical and security.



**Table 4.13 shows how internal control is efficient and effective in performance of Nile Commercial Bank.**

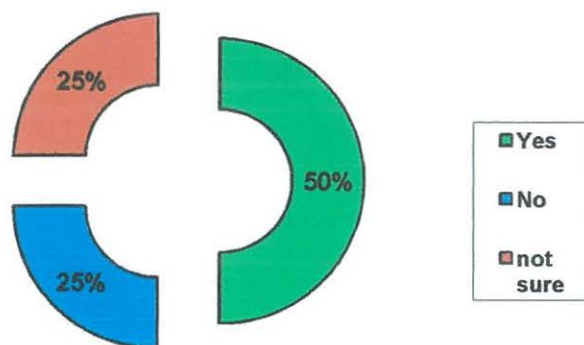
<b>Do you think that, internal control is efficient and effective in the performance of an organization?</b>				
<b>Responses</b>	Yes	No	Not sure	Total
<b>Frequency</b>	20	5	5	30
<b>Percentage</b>	50	25	25	100

**Source: Primary data**

From the above table, we see that 50% of the total respondents acknowledged the applicability of internal control as the efficient and effective measure in an organization's performance. They went ahead explaining that, it was through sound internal control system where the management would detect and prevents errors and frauds hence better performance of the bank. They gave an example of the adoption of surprise check, bank reconciliation and separation of duties which aimed at detecting errors and frauds. Further, it was through routine check up and balancing of accounts, the use of internal auditing functions where possible and paying reasonable salaries and benefits to employees according to their qualification, experience and sensitivity of their jobs. 25% were not sure and another 25% said internal control is not efficient and effective in the performance of Nile Commercial Bank.

**Figure 11: Shows how internal control is effective and efficient in the performance of the bank**

**The Doughnut chart showing how internal control is effective and efficient in the performance of the bank**



**Source: primary data**



From the above table, we see that 50% of the total respondents acknowledged the applicability of internal control as the efficient and effective measure in an organization's performance.

25% were not sure whether internal controls were efficient and effective in the performance of Nile Commercial Bank whereas another 25% said internal control was not efficient and effective in the performance of Nile Commercial Bank.

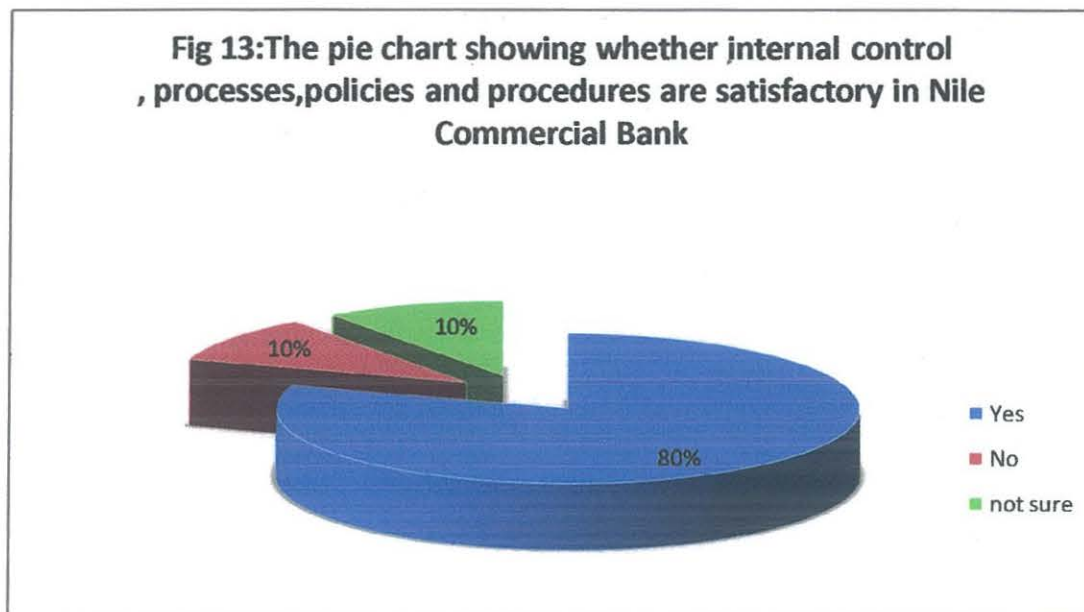
**Table 4.14 shows whether internal control process, policies and procedures are satisfactory in Nile Commercial Bank**

<b>Are internal control process, policies and procedure satisfactory in Nile Commercial Bank?</b>				
<b>Responses</b>	<b>Yes</b>	<b>No</b>	<b>Not sure</b>	<b>Total</b>
<b>Frequency</b>	26	2	2	30
<b>Percentage</b>	80	10	10	100

**Source: Primary data**

From the above, we can see the responds of respondents in term of frequency and percentage as well. Out of the total respondents, sixteen respondents said the controls, policies and procedures were satisfactory, two disagreed and the last two respondents were not sure whether the internal control system, policies and procedures in place were consistent and satisfactory. For the clear and good visual impression the doughnut chart was used to express the details as below;

**Figure 12 :The pie chart showing whether internal control , processes, policies and procedures are satisfactory in Nile Commercial Bank**



**Source: primary data**

Reporting on the question which wanted the respondents to identify whether proper internal control processes, policies and procedures were implemented in Nile Commercial Bank, 80% of the respondents accepted and they further explained both administrative and accounting control were practiced in the organization. They enumerated a number of processes, policies and procedure followed which reflected the concept of internal control system. These processes, policies and procedures included plans of organization, separation of duties, rotation and vacation and physical controls.

At the same time, 10% of the respondents disagreed and said there were no internal controls process, policies and procedures that were implemented in the Nile Commercial Bank and another 10% of the respondents were not sure whether internal control processes, policies and procedures were implemented in the Nile Commercial Bank. Since the majority of the population accepted that there are implementation processes of the controls, this showed that the bank has done all what it can to ensure that proper internal procedures, policies and processes are adhered to. The few who disagreed may be as a result of lack of education and qualification on their areas of

## **4.3 PRESENTATION OF OTHER FINDINGS**

### **4.3.1 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 payment.

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.

### **4.3.2 Problems that have been faced in the course of implementation of internal control systems in Nile Commercial Bank.**

No internal control system, however elaborate, can by itself guarantee efficient administration and completeness and accuracy of 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.

- i. 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.
- ii. Most internal controls in Nile Commercial Bank 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 of disposal of the bank's assets.
- iii. Human errors due to carelessness, distraction, mistakes of judgment and misunderstanding instructions undermine the effectiveness of the internal control system in Nile Commercial Bank.

- iv. 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 response by the security agents, the culprits were all arrested and charged with armed robbery. Such collusion renders segregation of duties ineffective.

#### **4.3.3 What the management of Nile Commercial Bank is doing to minimize the problems of internal control system**

##### **Control over disbursement of cash**

Most of the disbursements of Nile Commercial Bank 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. Nile Commercial Bank has three signatories who are authorized and approved to sign authorization. These include the managing director, director of finance and planning and chief accountant. However, small amounts of less than fifty thousand (U.sh 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 a monthly basis.

##### **Vote book**

This is the column sheet bound together in the form of the book or register is used by Nile Commercial Bank to record all expenditure including commitments. The book contains the current unspent and uncommitted balances of each item, serial number, the date, amount and the payee of each voucher paid or forwarded to be paid.

##### **Control over paid documents**

The entire paid up document 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.

##### **Internal control over cash**

Nile Commercial Bank 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 and strong room as well.

#### **Physical control**

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

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.0. Introduction**

This chapter presents the discussions and the 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 evaluate the efficiency and effectiveness of a good system of internal control over organizational performance of commercial banks and its contribution in reduction of fraud, embezzlement and accounting errors at Nile Commercial Bank. The second objective was to identify the factors that might have led to inefficiency and ineffectiveness of the existing internal control system and lastly, to identify and recommend the corrective measures to be taken to ensure strong and satisfactory performance of commercial banks.

The analysis, evaluation and interpretation of the data and information found on the field were correctly performed; therefore the conclusion and recommendation given below were precisely derived from the chapter and areas mentioned above.

#### **5.1. SUMMARY**

On the basis of the analysis of chapter four, the findings suggested that 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 performance of Nile Commercial Bank. It was viewed that, internal control plays important roles in the performance of Nile Commercial Bank. The roles played by internal control systems in the performance of Nile Commercial Bank were identified where 70% 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, it ensured business was adhering to the prescribed management policies, it secured and safeguarded the company's assets and secure as far as completeness and accuracy of records was concern.

The implementation of internal control process, policies and procedure are in place because on this question, 90% of the total respondents agreed that there were implementation of internal control process, policies and procedures by saying yes.

Only 10% of the respondents said there were no implementation of proper internal control process, policies and procedures.

While responding to the question of other controls apart from physical and security controls, 75% of the respondents accepted, 15% were not sure and the rest declined.

Moreover the respondents of 50% acknowledged that internal controls are efficient and effective measures of controlling fraud, embezzlement and accounting errors where as 25% of the total population were not sure of the fact and again 25% of the respondents disagreed that internal controls are efficient and effective measures of controlling fraud, embezzlement, and accounting errors to bring about good performance of Nile Commercial Bank.

## **5.2 CONCLUSION**

Internal control systems which relied entirely on separation of duties, plans of organization, rotation and vacation may be used to control frauds, embezzlement and accounting errors that is, it ensured proper and satisfactory cash management and hence good performance of Nile Commercial Bank.

Therefore, it is very important to note that, internal control systems play an important role in the performance of commercial banks especially Nile Commercial Bank 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 side, the researcher identifies the factors which lead to inefficiency and ineffectiveness of used internal control systems. Some of these factors are inability of Nile Commercial Bank to implement satisfactory control such as proper authorization of funds, lack of active internal audit unit in big organization like Nile Commercial Bank and failure to separate the responsibility for related transaction.

On the above basis, the researcher recommends the corrective measures, steps and procedures to be adopted to eliminate or minimize the chances of consequences which are likely to happen as the result of Nile Commercial Bank's failure to exercise the most appropriate and satisfactory measures of internal controls on organizational cash management and other assets to bring about good performance.

The information obtained through observation of voucher and other documents, questionnaires, interviews and focus group discussion shows control procedures laid down by the management are adhered to, to a certain extent, however some weaknesses distort the process and procedures but not to the extent of disqualifying the control in place.

### **5.3 RECOMMENDATION**

On the basis of this research work performed, the researcher recommended the following with the aim of improving the internal control systems of Nile Commercial Bank 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 procedure on hand. Nile Commercial Bank had almost all vital internal control policies, the only problem existing is its inability to act and operate within the set principles.

1. **Proper adoption of organization plan.** Organizational plan to establish authority and responsibility for every function, 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 payroll. One person should be clearly responsible for each function otherwise it was difficult if not impossible to determine who was at fault.
2. **Control of transaction.** If the management was to direct the activities of the business according to plan, 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 on its books.
3. **Separation of accounting and custody of asset,** an employee who had custody of an asset or an access to an asset lets say cash should not maintain the accounting records of that asset, this aims 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.



4. **Prevention of fraud**, if one employee is permitted to handle all aspects of a transaction, the danger of fraud is increased. Studies of fraud cases suggests 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 & Young in 2008**). So Nile Commercial Bank should consider this fact and minimize the possibility as quick as possible to be free from this risk.
5. **Further more**, Nile Commercial Bank should separate responsibility for related transaction, adopting job rotation on sensitive matters of cash or near cash assets, adopting serially numbered documents, undertaking financial forecasting and practice internal auditing to ensure all transactions are passed under a clear channel through prescribed accounting policies of Nile Commercial Bank and GAAP as well.

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## APPENDICES

### APPENDIX A

#### QUESTIONNAIRE

I am **KUOL DENG AREM**, a bachelor student of Kampala internal University. I am conducting researcher on “Internal control systems and performance of commercial Bank” a case study Nile Bank, Juba branch. The purposes of this study are to fulfill my academic requirements. Therefore I kindly request you to answer for me the following questions. Your responses will be treated with the highest degree of confidentiality. The data gathered is only and only for academic benefits.

#### Background information:

Please tick the most appropriate box.

1. Sex

A) Male ☐ B) Female ☐

2. Marital status

A) Married ☐ B) Single ☐

3. Age

a) 15-19	<input type="checkbox"/>	d) 31 -35	<input type="checkbox"/>
b) 20-25	<input type="checkbox"/>	e) 36-40	<input type="checkbox"/>
c) 26-30	<input type="checkbox"/>	f) 41-45	<input type="checkbox"/>

4. Level of education

a) Certificate ☐

b) Degree ☐

c) Diploma ☐

d) Other professional certificates.....

Fill in the Blank spaces if any.

5. What Internal control system(s)

6. What is the relationship between internal control systems and performance?

7. Briefly give the importance of internal control system in the following departments.

a) Accounts.....

.....

b) Loan.....

.....

c) Administration or management.....

.....

.....

**Please answer 'yes' or 'No' in the boxes provided.**

8. Do you have internal control systems in place in Nile Bank?

a) Yes ☐ b) No ☐

9. Internal control systems are related to performance of an entity, it is true

a) Yes ☐ b) No ☐

10. Is there nay categorization of the internal control systems in Nile bank?

a) No ☐ Yes ☐

11. Please tick the different types of Internal control systems that are in Nile bank

Juba branch.

a) Protective ☐ c) Corrective ☐

b) Detective ☐

12. Perhaps there are internal Control procedures for the above types of internal control systems. Is it true

a) Yes ☐ b) No ☐

13. Please cite some of them below:

- i) .....
- ii) .....
- iii) .....

14. What problems have been faced in the course of implementation of internal control systems in Nile bank?

- i).....
- ii).....
- iii).....

15. Is there something the management of Nile bank is doing in order to address the problems that you have stated above?

- |            |                          |            |                          |
|------------|--------------------------|------------|--------------------------|
| a) Yes     | <input type="checkbox"/> | c) No      | <input type="checkbox"/> |
| b) Nothing | <input type="checkbox"/> | d) Minimum | <input type="checkbox"/> |

16. To you, what do you think; the management must do to minimize the problems of Internal control system.

- i).....
- ii).....
- iii).....

#### b) Interview guide

Please tick the most appropriate in the box

1. Sex

- |         |                          |           |                          |
|---------|--------------------------|-----------|--------------------------|
| a) Male | <input type="checkbox"/> | b) Female | <input type="checkbox"/> |
|---------|--------------------------|-----------|--------------------------|

2. Marital status

- |            |                          |           |                          |
|------------|--------------------------|-----------|--------------------------|
| a) Married | <input type="checkbox"/> | b) Single | <input type="checkbox"/> |
|------------|--------------------------|-----------|--------------------------|

3. Age

- |          |                          |           |                          |
|----------|--------------------------|-----------|--------------------------|
| a) 15-19 | <input type="checkbox"/> | b) 31 -35 | <input type="checkbox"/> |
| c) 20-25 | <input type="checkbox"/> | d) 36-40  | <input type="checkbox"/> |
| e) 26-30 | <input type="checkbox"/> | f) 41-45  | <input type="checkbox"/> |

4. Level of education

- |   |                          |
|---|--------------------------|
| a) Certificate                          | <input type="checkbox"/> |
| b) Degree                               | <input type="checkbox"/> |
| c) Diploma                              | <input type="checkbox"/> |
| d) Other professional certificates..... |                          |

**Fill in the Blank spaces if any.**

1. What Internal control system(s) are used?

.....  
.....  
.....

2. Briefly give the importance of internal control system in the following departments.

a) Accounts.....

b) Loan.....

c) Administration or management.....

**Please answer 'yes' or 'No' in the boxes provided.**

3) Do you have internal control systems in place in Nile Bank?

a) Yes ☐ b) No ☐

4) Internal control systems are related to performance of an entity, it is true

a.) Yes ☐ b) No ☐

5) Is there any categorization of the internal control systems in Nile bank?

a).No ☐ b) Yes ☐

6) Please tick the different types of Internal control systems that are in Nile bank Juba branch.

a) Protective ☐ b) Corrective ☐

c) Detective ☐

7) Perhaps there are internal Control procedures for the above types of internal control systems. Is it true

a) Yes ☐ b) No ☐

Please cite some of them below:

i) .....

ii) .....

iii) .....

8) What problems have been faced in the course of implementation of  
internal control systems in Nile bank?

i).....

.....

ii).....

.....

iii).....

.....

**THANK YOU FOR YOUR CONTRIBUTION**



## APENDIX C

### BUDGET OF THE STUDY

ITEM	AMOUNT IN SUDANESE POUNDS
Typing printing	20
Air time	20
Transportation	15
Stationery	10
Literature Collection	50
Miscellaneous	12
TOTAL	127

## **APPENDIX B**

### **THE TIME FRAME OF THE STUDY**

Data collection	December 2010
Proposal	January –February 2011
Submitting	April 2011

## APENDIX C

### BUDGET OF THE STUDY

ITEM	AMOUNT IN SUDANESE POUNDS
Typing printing	20
Air time	20
Transportation	15
Stationery	10
Literature Collection	50
Miscellaneous	12
TOTAL	127