

**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF SELECTED  
SAVINGS AND CREDIT COOPERATIVE ORGANISATIONS (SACCOs) IN  
LUWERO TOWN COUNCIL- UGANDA**

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**DECLARATION**

I, hereby declare that the work in research is my original work to the best of my knowledge and has never been submitted for any award in any university or institution.

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## **DEDICATION**

I dedicate this work to my wonderful and supportive family; my parents Mr. Ssali John and Mrs. Ssali Florence for their unconditional commitment and support towards my entire life including the academic life, God bless you!

## **ACKNOWLEDGEMENT**

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## **LIST OF ABBREVIATIONS**

COSO	–	Committee of Sponsoring Organization of Treadway Commission
FP	–	Financial Performance
ICS	–	Internal Control System
LTC	-	Luwero Town Council
MSC	–	Micro Finance Support Center
SACCOs	–	Savings and Credit Cooperative Organizations
SOX	–	Sarbanes – Oxley Act
USA	–	United States of America

## ABSTRACT

The study sought to determine the relationship between internal control system and financial performance of few selected SACCOs in Luwero town council. To achieve the general objective it was broken into three measurable objections which included the assessing of internal control activities and its effect on financial performance of the SACCOs, studying the impact or effect of auditing activities on financial performance and lastly the influence of control environment on financial performance of the SACCOs. The study was carried out on three SACCOs and sample was 58 respondents. This was used secondary data and primary data that was acquired by the use of interviews and questionnaire.

The findings revealed that the SACCOs had control environment as one of the functionality of the internal controls of the organization that greatly impacts of the financial performance of the SACCOs. It was also established that management closely monitors implementation on internal control systems. The study examined the effect of control activities on financial performance of selected SACCOs in Luwero town council. The result also revealed that it is impossible of the member of staff to have access to all valuable information without the consent of senior staff. The statistical results from the regression analysis show that there is a possible relationship between auditing and financial performance ( $r= 6.265$ ).

It was concluded that there is a positive relationship between internal controls and financial performance. This indicated that the proper or efficient or improvement in the internal controls will automatically lead to improved financial performance.

The limitation of the study included members were not informed more about the internal control and this called for more explanation. This took amount of time.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter includes background of the study, study objectives, research questions, the scope of the study in terms of geography, content or variables and time, the significance of the study, conceptual framework, and eventually operational definition of the key terms.

#### **1.1 Background of the study**

##### **1.1.1 Historical perspective**

The ICS profession evolved steadily with the progress of management especially at the end of World War II. It is conceptually similar to financial editing by public accounting firms, quality assurance and compliance activities. Much of the theory underlying ICS are derived by management consulting and public accounting professions with the implementation in United States of the SOX Act (2002). The professions growth accelerated, as many internal auditors acquired the skills required to help companies and public institutions meet the requirements of the tales. According to auditing standards board, ICS is a measure of checks and balances, a method and procedures instituted by an organization to conduct a systematic approach that management can rely onto achieve its intended goals.

However, that was in the us and it was for private entities which may not be applicable in public entities and many internal auditors may not posses inc. required skills to help companies and public institutions meet their objectives.

Recent development shows that there is a need for organization to have the ability to improve the level of financial performance in order to add value to their activities like development projects and progress of service delivery in their structures. This is contained in financial reporting and auditing practice (2006).

The concept of ICs and FP took a big leap in the twenty first century (21<sup>st</sup>). It originally developed in Britain, when a powerful, administratively strong, centralized state emerged.

The findings of the Treadway Commission Report (1987) in the united states of America (USA) confirmed that the absence or weak internal control and FP is primarily the cause of many cases of fraudulent Acts and comprised standard of working leading to shoddy work, value for money not being realized in business organization financial reporting. This has been witnessed in Uganda by various scandals that rock the national social security fund, in the office of prime minister and the ministry of trade, industry and cooperatives.

If internal controls were strong, such trisections would have been detected and blocked. Therefore wide spread global corporate and institutional scandals that assumed near-epidemic proportions in recent years have created concern which this study is trying to investigate. Notable cases include, Enron and worldcom.xerox and recently alleged fraud cases like Lehman and Brothers in the United States of America, Parmalat in Europe and Chuaoyama in Asia (Higson, 2012). In South Africa, Cases accounting scandals were recorded in JCL and Randgold and exploration Co. Ltd Annual Report 2011.

In Nigeria, the managing director and chief finance officer of Cadbury Nigeria P/C was dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partners acquired controlling interest (Cadbury Annual Report, 2006).

It is generally believed that properly instituted systems of internal controls improve FP but in spite of this, elaborate ICS and FP has eluded most entities and this called for an investigation to the effects ICS and (Micheal C. Jensen, 1993).

### **1.1.2 Theoretical perspective**

This study was guided by the "principal agency theory" as put across by Jensen and Meckling (1976).

According to the theory, a company consists of anexus of contracts between owners of economic resources and manager who are charged with using and controlling those resources (Jensen and Meckling 1976.) principal agency theory posts that this, information. A symmetry adversely`affects the principal ability to monitor whether or not these interests are being properly served by agents.

The theory also assumes that principals and agents act rationally and use contracting to maximize their wealth which may lead to moral hazard problem indicating that in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of the principals.

As argued by Tanzi (2000) between their creation and their final implementation, fiscal decision go through many stages at which mistakes, indifferences, passive resistance, implicit opposition and various forms of principal agents problem distort the outcome.

Deegan and Unerman (2006) noticed that with the agency theory the firm itself is considered to be "anexus" of contracts. These contracts are used with intention of ensuring the technocrats who are agents align their own interest with the interests of the organization to achieve its objectives.

Another theory underpinning this research is reliability theory which states that the ability of a system or component to function understated conditions for a specified period of time.

Reliability is closely related to availability which is typically described as the ability of components or a system to function a specified moment.

The system in place affects the ability of the organizations that is in performance, the reliability of a component is defined as the probability of the component being found in the "success" Stat C. In addition, the reliability of the entire internal control system is a binary combination with two possible values "success and failure".

### **1.13 Conceptual perspective**

The key concept for this study is internal control systems and financial performance. The relationship between the internal control systems and good financial performance is the ideal output of internal control systems. Internal control systems in this study are measured using its components such as control environment internal audit and control activities.

Good financial performance is measured by profitability, timely accountability and reliable reporting plus compliance with laws, regulations and guidelines. The ICS in the study was the independent variable.

Mwindi (2008) reports that internal controls are processes designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness, efficiency of operations and compliance with applicable laws and regulations.

According to Boyle, Cooper and Gelger (2004) internal control is a process designed to provide a reasonable assurance regarding the achievement of objectives for reliable financial statements, effective and efficient operations and compliance with applicable laws and regulations .

Internal controls are processes designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations.

Financial performance was considered in terms like profitability, liquidity using liquidity ratios like current ratios, acid test ratios, and the case with which entity settles its

financial obligations and accountability (in terms of financial accountability CACAA-managerial finance paper 8, 1998).

According to financial analysis conceptual framework financial performance is the process of measuring the result of a firm's policies and operations in monetary terms.

In order to evaluate the financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools for measuring financial performance ratio. Ratios can be classified into four broad groups on the basis of items used, liquidity ratio, leverage ratio, profitability ratio and activity ratio.

The SACCOs in Luwero town council they get money or funds from its members therefore a need for accountability arises because members want to know how it was spent. Internal control system is conceptualized in terms of internal environment, control activities and auditing, whereas financial performance is conceptualized in terms of reliability, accountability, timely reporting and compliance with the laws, regulations and guidelines.

#### **1.1.4 Contextual perspective**

Internal control system is an organization and all the methods adopted by the management to ensure the attainment of the objectives as far as practicable. They orderly and efficient conduct of its business, including adherence to management policies, the safe assets, prevention and detection of fraud and errors, the accuracy and completeness of accounting records and timely preparation of reliable information.

Financial performance is the measure of entity's health over a given period of time.

SACCOs in Luwero Town Council. These are organizations owned, governed and managed by members who gave some common bond example teachers, farmers, people who work in different markets among others. Internal controls in the selected SACCOs include authorization, segregation of duties among others which help the



SACCOs to operate efficiently and financial performance of these SACCOs some increase and others decreases day by day.

## **1.2 Problem Statement**

Internal control systems are the most important and challenging issue in the SACCOs in Uganda. Making sure SACCOs manage their internal control systems is essential to streamlining operations and minimizing unnecessary financial costs which in turn affects its growing.

In Uganda the position of SACCOs has been heightened by the launch of the government "Bonna Bagaggawale" (prosperity for all) intended among others interventions to address inadequate access to financial success. These programs use SACCOs to channel both agricultural and commercial loans at below market rates to borrowers. Micro Capital Monitor. (2006) identifies that the government of Uganda has set aside the equivalent of USD 133.7millions for subsidized loans to individual and small business through the government. MSC to SACCOs.

Luwero Town Council is located in central Uganda in Luwero district and central Uganda has majority composition of 46 SACCOs. However these SACCOs find many challenges which sometimes leads to their downfall, these include massive fraud by management staff and committees, high level of dishonesty and lack o transparency on the part of the committee among other challenges. Like management of funds, management of the resources of the organizations conflicts. Internal control systems ensures that there is authorization of every transaction, management of cash to meet the needs of the members and day to day activities, to finance the business plans and cash on economic development of SACCOs with sufficient internal control systems can confidently focus business operations but SACCOs suffering from inadequate internal control systems most constantly re-examine and modify plans, exerting enormous energies to obtain and keep additional financing.

Therefore this study is to assess the internal; control system and financial performance of the selected SACCOs in Luwero Town Council this will help them to understand the concept of internal control system will help to improve their financial performance.

### **1.3 General objective of the study**

The purpose of the study was to assess the relationship between internal controls and financial performance in Luwero town council, Luwero district Uganda.

### **1.4 Study objectives**

To find out how internal control activities affect financial performance of SACCOs in Luwero town council.

To assess the impact of auditing on financial performance of SACCOs in Luwero town council.

To find out the influence of the control environment on the financial performance of SACCOs in Luwero town council.

### **1.5 Research questions**

How does internal control activities affect the financial performance SACCOs in Luwero town council?

What are the impacts of auditing on the financial performance SACCOs in Luwero town council?

How does internal control environment influence the performance SACCOs in Luwero town council?

## **1.6 Scope of the study**

### **1.6.1 Content scope**

The study was focused on internal control systems and financial performance. It is focused on the control activities, control environment and auditing.

### **1.6.2 Geographical scope**

The study was conducted in Luwero town council located in Luwero district, central Uganda because it holds information that is the interests of the researcher and it is easy to be accessed by the researcher.

Luwero district is bordered by Nakasongola in the north, Kayunga district in the east, Mukono district in the south east, Wakiso district in the south, and Nakaseke in the west. The coordinates of the district are 0050N, 3230E

### **1.6.3 Time scope**

The research was carried out for the period of 5months from February to June. This time is suitable because it provides ample time to collect factual data from the field.

## **1.7 Significance of the study**

### **Practitioners**

This study has helped the government to fight against the errors of fraud and misuse of the funds it provides to the SACCOs because the SACCOs are going to improve their management teams.

This information is used by the members of these SACCOs to improve the management by these SACCOs to implement different internal controls in order to improve on the financial performance of the SACCOs.

The findings of the study specifically helped the administrators in Luwero town council to emphasize the implementation of internal controls for better results in the SACCOs.

## **Research**

The study findings acted as a basis of further research in the field of internal control systems on matters concerning transparency and accountability.

The study is the basis for academic award. It is upon its completion that the researcher will be awarded the bachelors degree in business administration, and approvals in SACCOs.

## **Community**

The findings provided proper understanding of the internal control system, how they can be used to boost the performance of the SACCOs in Luwero town council.

## **1.8 Operational definitions**

### **Internal control systems**

As defined in accounting and auditing is a process of assuring achievement of organization's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and rules.

### **Performance**

The word performance refers to the accomplishment of a given task, measured against the present standards of accuracy, completeness cost and speed (financial performance analysis conceptual frame work, 2012).

### **Financial performance**

This is a general measures of entity is overall financial health over a given period of time and can be used to compare similar entities across the same industry, different SACCOs.

### **Savings and credit cooperative organizations (SACCOs)**

Members who have same common bond: they may be members of the same society, working for the same employers, belonging to the same church, labour union.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents the theoretical perspective, conceptual framework and related literature in respect to the specific study objectives.

#### **2.1 Theoretical Review**

##### **2.1.1 Agency theory**

This theory explains how to best organize relationship in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work or to perform a task the principal is unable or unwilling to do.

Agency theory assumes both the principal and the agent are motivated by self interest.

It has been argued that firms have an economic incentive to report on internal control, even without requirements or SOX (Deumes and Knechel, 2008). Their argument assumes that providing this addition information of the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk and therefore the cost of equity capital.

Internal controls have also been reported to play a major role in moderating the agency problem in corporations for many years. Accordingly, Samson et al. (2006) document several internal control procedures by Baltimore and Ohio Railroad as early as 1831.

Internal controls is one of many mechanism used in business to address the agency problem. Others include financial reporting, budgeting, audit committees and external audit (Lensen and Payhe 2003). During 1980's several high profile audit failures led to creation of the committee of sponsoring organizations of the Tread way commission, organized for the purpose of redefining internal control and the criteria for detecting the effectiveness of an internal control systems (Simmons 1997). Other studies have also

shown that internal control reduces agency costs (Abdel-Khalik 1993), (Barefiled et al. 1993) they both studied the casual factors that can lead to fraudulent financial reporting and developed recommendations from companies, independent auditors, education institutions, the securities exchange commission.

Agency theory describes firms as necessary structures to maintain contracts. It is possible to exercise control which minimizes opportunistic behavior of agents (Jensen and Meckling, 1976).

According to Barlie and Means (1932) posit that in order to harmonize the interests of both agents and principals a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent.

This position is also supported by Coase (1937) who maintains that the contract provides for conflict resolution both the agent and principal, where the principal determines the work the agent undertakes the work. He however, proposed that the principal suffers shirking which deprives him or her from benefiting from the work of the agent.

Nevertheless, the theory recognizes the incomplete information about the relationship interests or work of the agent described as adverse selection and moral hazard Coase (1937) explains that moral hazard and adverse selection affects the output of the agent in two ways not doing exactly what the agent is appointed to do, and not responding and possessing the requisite knowledge about what should be done,. This therefore affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual.

It can thus be concluded that agents have information than principals and that this information asymmetry adversely affects the principal's ability to monitor effectively whether agents are properly serving their interests. Therefore, these organizations are

necessary structures to maintain contracts and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents.

### **2.1.2 Reliability theory**

This simply describes the probability of a system completing its expected function during an interval of time (Gavrilov and Gavrilova, 2001). It was originally a tool used to help nineteenth century maritime insurance and life insurance companies in computing profitability rates to charge their customers.

According to reliability theory, an internal control system comprises of components that are defined measure of success. As such the state of a component is determined by whether the component is successful or not successful. The reliability of the component is defined as the probability of the component being found in the "success" and "failure". The study considered the part of the reliability theory which relates the ICS system to component reliability.

The tractability of the reliability theory to the evaluation and design of ICS have appeared in the professional literature but no applications have been reported that draw up on the substantial power of the theory of reliability (Kinney, 2000). The two potential users of the theory are external auditors and organization's management. (Kinney, 2000) states that; during the external audit, evidence is gathered to support a professional opinion.

Internal control systems have a primary purpose of assessment and control of risk that a material error was not to be prevented or detected on a timely basis by the systems results to losses. Weak internal control system results in more substantive work and hence greater cost. According to Gavrilov and Gavrilova (2001), the determination of the weakness of any ICS is primarily judgmental.

Upon the formulation of the process and system reliability estimates, comparison with data from organization's past performance or other firms may provide a more solid

basis for judgment of the impact of an ICS on the firm's income risk, and hence provide for more rational allocation of the auditor's time and effort.

Messier Jr. and Austin (2000), state that one of the primary advantages of reliability theory is its close relationship to the auditor's need regarding understanding the ICS and its components.

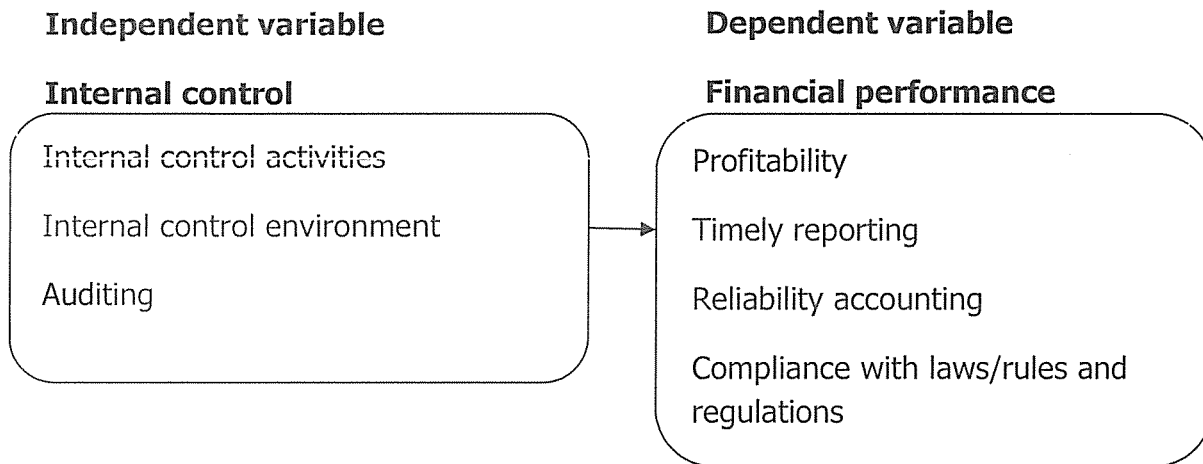
According to Stratton (2007), recent developments have increased the value to management of objective methodologies for the evaluation of IC system. Firm managers are therefore required to assure the accuracy of these systems. Stratton (2007) also adds that the process of evaluation of the internal system by both management and external auditors is judgmental in nature.

However, the few attempts at modeling ICS have not been implemented by firms due to lack of realism, difficulty of modeling behavioral systems, lack of cost effectiveness and lack of understanding by practitioners.



## 2.2 Conceptual framework

**Figure 2.1:** this shows the relationship and it expands that one in chapter one that is between internal control system and financial performance.



**Source: COSO internal control framework.**

### **Figure 2.1:**

From the reviewed literature the internal controls interconnect with the financial performance and internal control here is taken into consideration in form of internal activities control environment and auditing while financial performance is broken down of profitability. Timely reporting, reliability accounting and compliance with laws, regulations and rules.

## 2.3 Related literature

Related literature presents secondary and primary data on comprehensive review of issues and factors that have been explored in various previous studies in the empirical and theoretical existing literature. It focuses on what other scholars have written about the topic in specific regard to the research objectives.

### **2.3.1 Internal control activities**

These are controls established by an entity that valuable resources of an entity do not end up in wrong hands. There are activities include approval and authorization segregation of duties.

Approval and authorization and financial performance according to Washington state administrative accounting manual (2008) the transaction in business environment requires approval and authorization by appropriate officer and authorization limit to be clearly specified. Control activities in this category are designed to provide reasonable assurance that all transactions are within the limit set b policy. Treadyway Commission (2009) added that authorization and approval are control activities that mitigate risk of in appropriate transactions. They serve as fraud different and enforce segregation of duties. Thus the authorizer and the approver should be generally two separate people.

Authorization is the power granted to an employee to perform task. It is a delegation of duties for example the chairman of the SACCO delegating a member to purchase something. Management defines the terms of authorization and ensures that those terms are document and clearly communicated.

According to Astrid Apoutou, approval is the confirmation on sanction of sanction of employee decision, events and transaction s based on an independent review. It signifies that the approver has reviewed the supporting documentation and is satisfied the transaction is accurate and complies with applicable laws and regulations. Only those acting with the scope of their responsibility should authorize, approve and execute transactions.

According to the governance of state-owned enterprises and public agencies in the Islamic republic of Mauritania (2013), Public agencies are required to have public accountant that is to be appointed by decree issued by a ministry of finance as a sole administrator of cash in conformity with the authorization and approvals.

The SACCOs usually have the chairman, treasurers and secretaries these and some other members on the leadership committee approval the transactions, ideas and giving out of the loans. This ensures that the resources have been placed in the right hands, it avoids misuse of money. Authorization and approval in SACCOs is a crucial thing to ensure that the resources especially cash is handled well, which in turn has affected financial performance in the positive way.

**Segregation of duties and financial performance:** Stones (2009), defines segregation of duties as a basic fundamental element of internal control, that no employ should be in position to perpetrate and conceal error of fraud in the normal course of their duties.

According to administrative and accounting manual (2008), segregation reduces the risk of error and fraud by requiring that more than one person is involving in completing a particular fiscal process. It emphasizes three principles that underline segregation of duties as custody of assets, authorization and approval of related transaction affecting those assets, authorization and approval of related transaction affecting those assets and recording or reporting of related transactions. Ironically, no internal control audit standards or accounting pronouncement prescribes specific and segregation of duties requirements.

However, maintaining a system of effective, there are needs to be adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. In general, the flow of transaction processing and related activities should be designed so that work of one individual is either independent of, or serves to check on the work of another. Such arrangement reduces the risk of undetected errors and limit opportunities to misappropriate cash. According manual (2008), collusion between two or more individuals can result in control failures the current structure in the SACCOs regarding segregation of duties is far from the above principle and this therefore calls for a study.

## **Internal audit and financial performance**

As a result of the increase in accounting scandals in recent years, the internal audit function has received impression attention as an important contributor to effective corporate governance and financial reporting because high quality internal audit function focused on improving financial (Prawit, 2008).

All SACCOs should improve the effectiveness of internal control, internal audit functions and organizational commitment because they improve good governance (Mwindi, 2003).

According to Baltaci and Vilmaj (2006) establishing IC system and audit practices in organization has received little or no attention. And with out establishing an effective IC system in SACCOs detection and control of misconduct in these organizations would not be possible.

Therefore implementing and auditing such effective IC system will ensure compliance with laws and regulations even in different section (Amudo and Inanga, 2009).

Meanwhile, it is good for SACCOs to improve the effectiveness of their internal control system in order to enhance the effectiveness of internal audit.

The main responsibility of internal control system in SACCOs is ensuring protection of the assets, ensuring proper utilization of funds, proper wxpe5nditure and Auditing, removal of any misconduct in finance.

The internal audit department is the custodian of these ICS to ensure that these measures are adhered to, so as to improve financial performance in SACCOs.

According to academic journal if interdisciplinary studies (2015), the responsibilities of the internal audit are increasing with the sophistication of the economy and business organizations. From these responsibilities we can list examination of accounts to determine their accuracy and reliability, review the company's policies, operations and procedures to agree with expectation and standards, establish and programme adequate accounting system and effective forms of control providing advice to management in

respect to the changes in the economy and reliability and supervise the progress of the entity.

Whittington and Pany (2001) suggest that internal auditing performed as part of the Auditing activity or an organization. It involves investigating and appraising internal controls and the efficiency with which the various unities of the organization are performing their assigned functions. An internal audit is normally interested I determining whether a department has clear understanding of its assignment is adequately staffed, maintains good records, properly state guiding cash and other assets and cooperates harmoniously with other organizations.

Goodwin and Kent (2006) on the other hand, assets 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 some one who determines the scope of work.

In accordance to institute of internal auditors (11A-UK, 1997) independence is applicable to all categories of auditors. This means the opportunity grated to the auditor to report directly to the top management.

Woolf (1986), says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carry out his work as he wishes and have access to the highest level of management. However, Mill Champ (1993) says, effective internal audit should be carried out by an independent personal though they are employees appointed management, for them to work efficiently; they should have scope to arrange priorities and activities have unrestricted access to records, assets and personnel.

According to Bhatia (2003), internal auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It is also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of management's control system (Subramaniam, 2006). Its objective is to provide management re-assurance that their internal control systems are adequate for the needs of the organization and are operating satisfactorily (Reid and Ashelby, 2002), it is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other 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 the 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 of controls and Auditing controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they make take on), and organization structure.

Accounting literature likewise emphasizes the importance of an organization's values in maintaining an effective control system (Verschoor, 1999). A focus on integrity and ethical values was the principal contribution of the internal control-integrated framework published by the committee of sponsoring organizations of the Treadway Commission (on fraudulent financial reporting).

### **2.3.2 Determinants of financial performance**

According to Dixon (1990, P.213) appropriate performance measures are those which enable the origination to direct its actions towards achieving its strategic objectives Koley and Meredith (1997) contend that performance is measured by either objective or subjective criteria; argument for subjective measures include difficulties with collecting qualitative performance data from small firms and reliability of such data arriving from differences in accounting methods used.

First, models based on the two conceptual views of financial performance re compared and evaluate against accountabilities. Then, a hybrid alternative is compared and evaluated against the accountabilities.

Ideally, the model chosen would, help to resolve issues regarding the measurement of financial performance in different organization financial statement through meeting the identified financial statement accountabilities; and increase the clarity of presentation and understanding of financial performance and financial position.

### **Liquidity**

Hiit, et al (1996,) mention current ratio (current assets/current liabilities) as standard measure liquidity in an organization. Baysinger, (1989) also emphasized the importance of current ration as a measure of 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, mangers need regular financial reports so as to be informed decisions. Reporting (particularly financial report) is one way through which organizational managers make accountability of the resources entrusted to them. Emasu (2010) asserts that accòuntability can be political, social or financial

accountability. This concept is similar to responsibility, answerability, blameworthiness and liability.

### **Time reporting**

Whittington and Panday (2003) talk about comprehensiveness of internal controls in addressing the achievements of objective in the areas of financial reporting, operation 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 analysis that enable executives to maintain control over the variety of activities and functions that are performed.

They mention internal control devices to include; Use of budgetary techniques, production standards, inspection laboratories, employee training and time and motion studies among others.

According to Omounuk (1996) corporate laws requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of other top committees, these report to the other members on the result of their stewardship for resources entrusted to them through a medium called financial statements.

### **2.3.3 The relationship between internal control system and financial performance**

According to IAS, UK and Ireland (315) internal control comprises five components: control environment, the entity's risk assessment process, the information and communication system, control activities and Auditing of controls. However, for the purpose of this study the research will narrow on three components that control activities, internal audit and control environment.

The statement of standard auditing practices No.6 (SAP 6) defines internal control as "plan of organization and all the methods and procedures adopted by the management



objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safe guarding or assets prevention and detection of fraud and errors, the accuracy and completeness of accounting records and timely preparation of reliable information”.

It is therefore worth nothing from the above that properly instituted internal control will ensure completeness of all transaction undertaken by an entity; that the entity’s assets are safe guarded from theft and misuse; that transactions in the financial statement are stated at the appropriate amount; that all assets in the financial statement of SACCOs are revalued regularly and recoverable amounts stated and transactions are presented according to Generally Accepted Accounting Principles.

Internal controls refer to measures instituted by an organization so as to ensure the attainment of an organization’s objectives, goals and mission. (Ejon and Ejom, 2014).

On the other hand, financial controls entail objectives criteria such as return on the investment (Ro1) on the evaluation of business level manager’s performance.

They are similar to what Eisenhardt (1985) referred to as outcome controls. Thus top-level managers establish financial targets for each business and measure the business level manager’s performance against these targets. Such an approach can be problematic when the degree of interdependence among business units is high.

Hayes (2005), Note that “the three major categories of management objectives comprise effective operations, financial reporting, and compliance”. Effective operations means safe guarding assets of the organization, the physical assets, cash and non-physical assets like receivables, important documents must not be misused or accidentally destroyed. The goal of financial records requires accurate information for internal decisions because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting

standards. Organizations are equally required to comply with many laws and tax laws and environment protection laws.

## **CHAPTER THTREE**

### **METHODOLOGY**

#### **3.0 Introduction**

In this chapter focused on the mode and methodology to be used to carry out the study presented. They included the following; research design, study population, sampling procedure, data sources, research instruments and procedure, data processing and analysis.

#### **3.1 Research design**

The study intended to investigate the impact of internal control system on financial Performance of SACCOs in Luwero case study Luwero Town Council objectives of the study were finding out how internal control activities affect financial performance of SACCOs, the impact of auditing on financial performance of SACCOs and finding out the influence of the control environment and the financial performance.

A descriptive report survey design was adopted using qualitative and quantitative methods. The study targeted 100 respondents. Random sampling techniques was used to collect data.

#### **3.2 Research Population**

A population is the aggregate or totality of objects or individuals having one of more characteristics in common that are interest to the researcher. The research population of the study targeted 100 respondents. The population of the study included the selected people from different SACCOs. The study selected total respondents from SACCOs chairman, treasures, members, accountants, SACCOs managers.

##### **3.2.1 Sample size**

A sample is a portion of the population that represents the entire population, because of time and resource interfaced with the entire research population; this prompted the

researcher to choose a sample. The study constituted 58 respondents who were chosen from the total population of the study.

### **3.2.2 Sampling procedure**

The researcher employed- random and purposive sampling techniques to obtain the population required. Purposive sampling techniques to obtain the population required.

Purposive sampling was used to select the respondent from administration of the town council and the leaders of different selected SACCOs. Random sample was used in the selection of SACCO members. The technique ensured an equal representation of the respondents in their position and it helped to get key reliable and grass root data.

### **3.3 Data collection instruments**

Primary and secondary sources of data were used in order to get accurate data. The primary data was obtained through questionnaires and interviews

#### **3.3.1 Questionnaires**

Questionnaire as a technique of data collection was employed. This included writing down question to the people to tick the right alternative and fill in the questionnaire.

The method was relevant to the study because it is used to obtain the information on this specific problem under in brief intervals of time. This also provides information about a large and representative sample.

#### **3.3.2 Interviews**

Interviews and other data collection techniques were carried out on the focus group of people that is because the researcher found it useful to get the focus group of people so as to get or make the research relevant because the focus group knows the information required by the researcher.

### **3.4 Sources of data**

#### **3.4.1 Primary data**

The information or data that was collected by researcher from the field, data collected afresh and for the first time, has not been processed; questionnaires and interviews are the common research tools to be used to collect data. In recognition to this, the researcher collected data that is relevant to the researcher problem

#### **3.4.2 Secondary data**

In secondary sources documentary method was used whereby the researcher uses different documents to obtain relevant information, the financial statements of the SACCOs and books of account which include balance sheet, profit and loss and cash flow statement.

### **3.5 Data analysis**

The study used both qualitative and quantitative methods in research in the sense that the data was presented in statistical figures and theoretical analysis. This technique was chosen because of its ability to represent sample of the population ho have information. The data was processed and analyzed using SPSS with the aim of organizing data into meaningful categories this made it easy to understand and interpret using tables to show the frequencies and percentages. This enables the analysis in relation to the study objectives as computed and printed.

### **3.6 Ethical consideration**

The research was carried with full knowledge and authorization of the college of economics and management and meet with the Head of Department to be provided in the letter while going to the field. The researcher went ahead to select data from respondents, and arrange them for dates up on which she delivered the questionnaires as well as picking them.

### **3.7 Limitations of the study**

In this research work, the researcher may account the following limitations.

First, the unwillingness of the respondents to provide some of the much needed data they may to be. This confidential was overcame by assuring the respondents that the research was to be used for academic purposes alone and their identities were to remained confidential. Secondary, the researcher was not able to investigate through all selected SACCOs in LTC while carrying out research.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.1 Introduction

This chapter presents the analysis and interpretation of the study and its findings arising from the data collected from the field using questionnaires and interview. This chapter presents and discusses the findings of the study. The chapter also presents the analysis and interpretation of the results. The presentation is done according to the specific objectives.

#### 4.2 Response rate

The study sought to collect data from 58 respondents constituting 100% of the respondent's rate. The study was carried out in three SACCOs that is Teachers' SACCO, Agali Awamu SACCO and Wekembe SACCO to establish the relationship of internal control system and financial performance of selected SACCOs.

#### 4.3 Descriptive statistics

Descriptive statistics are concerned with explaining the sample of the data that the researcher is concerned with, they are used to describe the main features of a collection of data quantitatively. Below are the findings.

##### 4.3.1 Duration of that the SACCO has been in operation.

The respondents were requested to indicate the period in which the SACCO has been operating in Uganda in order to establish whether there are some branches and whether the effect of the internal controls and financial performance had any relationship with the duration that the SACCO had been in operation.

**Table 4.1: Duration**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5 years	8	13%
5-10 years	11	19%
11-15 years	12	21%
Over 15 years	27	47%
<b>Total</b>	<b>58</b>	<b>100</b>

**Source: primary data, 2018**

From table 4.1, the respondents were requested to indicate the period that the institution has been in operation, from the findings, majority of the respondents pointed out that there are SACCO has been in operation for over 15 years with 47% however other argued that it's 11-15 years not exceeding 15 with 21%. It was concluded that the SACCOs have been in operation for over 15 years.

#### **4.3.2 The size of the SACCO**

The respondents were asked to indicate the size of their SACCOs in terms of market share, membership and deposits, to establish it's influence on the financial performance.

**Table 4.2: Size**

<b>Size</b>	<b>Frequency</b>	<b>Percentage</b>
Large	15	25.8%
Medium	33	56.8%
Small	10	17.2%
<b>Total</b>	<b>58</b>	<b>100%</b>

**Source: primary data, 2018**



From the table 4.2, the respondents were requested to indicate the size of their SACCOs in terms of market share, membership and deposits. 25.8% indicated large, 17.2% said it's small sized and the majority indicated medium sized with 56.8%.

Some gave us membership as 3320 people other 4700 members indicating that the SACCOs are medium sized.

#### **4.4 Functionality of Internal control of SACCOs in Luwero town council**

The respondents were requested to determine the functionality of the internal control in the following aspects of financial performance in five point Likerscale that is agree (A), strongly agree (SA), disagree (D), strongly disagree (SD) and not sure (N).

##### **4.4.1 Control activities**

This is the first objective of this study and the results were analyzed in the table below;

**Table 4.3: Control Activities**

<b>Control Activities</b>	<b>Mean</b>	<b>Standard deviation</b>
Our organization has clear separation of roles	4.51	6.911
Every employee's work is checked by others	3.85	0.506
There is appropriate supervision by senior staff on the work done by their juniors	4.19	0.882
Corrective action is always taken to address weaknesses	3.24	0.556
Staff are trained to implement the accounting and financial management systems	4.10	0.603
Our SACCO has a well developed Chart of Accounts	3.42	0.619
It is impossible for a member of staff to have access to all valuable information without the consent of senior staff	3.14	0.712
Controls are in place to avoid incurring expenditure in excess of allocated funds	3.22	0.845
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	4.20	0.972
Our security system identifies and safeguards the organization's assets	3.36	0.963

**Source: primary data, 2018**

From the table 4.3 above, the respondent agreed indicating that the SACCOs have clear separation of roles whereby there are different roles assigned to different people everybody does his or her role. Employees agree that employee's work is checked by others (mean 3.85; std. dev. 0.506). The respondents agreed to this which had a mean of 4.19 and standard deviation of 0.882. The SACCOs in Luwero town council management provides feedback to their junior officers about the operation of the system. The findings indicated above support the conclusions drawn by Amudo and Inonga (2009) that there is need for effective control systems to be developed and constant evaluation of the system is the key to effectiveness of the SACCOs.

#### **4.4.2 Internal audit activities and financial performance.**

Another objective of this study was to assess the impact of auditing on financial performance of selected SACCOs in Luwero town council.

The findings are below;

**Table 4.4: Internal audit activities**

<b>Internal audit activities</b>	<b>Mean</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our SACCO has an internal audit department	3.9	18 31%	26 44.8%	5 8.6%	6 10.3%	3 5.2%
Our internal audit function is sufficiently staffed	3.7	15 25.9%	22 37.9%	9 15.5%	12 20.7%	0 0%
Internal audit staff conduct regular audit activities in our organization	3.6	13 22.4	24 41.4%	9 15.5%	11 19.0%	1 1.70%
Internal audit reports address weaknesses in our internal control system	3.8	11 19.0%	34 58.6%	8 13.8%	2 3.4%	3 5.2%
Internal audit reports are produced regularly	3.8	11 19.0%	33 56.9%	10 17.2%	1 1.7%	3 5.2%
Management discusses internal audit reports frequently	3.8	10 17.2%	32 55.2%	12 20.7%	3 5.2%	1 1.7%
Internal auditor makes appropriate recommendations for management to improve upon	3.8	7 12.1%	32 55.2%	12 20.7%	7 12.1%	0 0%
Internal audit staff visit up-country branches often	3.7	4 6.9%	42 72.4%	8 13.8%	4 6.9%	0 0%
Internal auditor issues reports on up-country branches regularly	3.8	8 13.8%	39 67.2%	6 10.3%	5 8.6%	0 0%
Internal auditor performs his duties with a greater degree of autonomy and independence from management	3.9	10 17.2%	33 56.9%	10 17.2%	2 3.4%	2 3.4%
<b>Average</b>	<b>4.0</b>					

**Source: primary data, 2018**

The study findings above show that auditing in SACCOS has a positive relationship (aggregate mean = 4.0)

The results in the table 4.4 above show that respondents acknowledge having internal audit department (mean 3.9).

Internal audit department is sufficiently staffed (mean 3.7). This means the SACCOS have internal auditors who check on the books of accounts, so having the department in place with sufficient staff improved financial performance.

The staffs have necessary skills to enable them achieve the target set (mean 3.9). this means that internal audit department is in state and well stated to ensure that internal control systems are placed in and errors made are corrected in time to improve financial performance.

#### 4.4.3 Testing the influence of auditing on Financial Performance.

In order to determine the influence of auditing on Financial Performance in selected SACCOS correlation and regression analysis were in conducted. The results are summarized in the table 4.5;

**Table 4.5: Relationship between auditing and financial performance.**

Auditing	Pearson correlation	Auditing	Financial performance
	Sig-(2-tailed)	1	-149*
		2	-265
			58
Financial performance	Pearson correlation	-149*	1
	Sig-(2-tailed)	-265	
	N	58	58
Correlation is sign. At the 0.05 level (2-tailed)			

**Source: Primary data, 2018**

According to the result in the table 4.5 above, auditing and financial performance have a significant relationship ( $r = 0.265$ ,  $p < 0.05$ ).

This means that auditing has a moderate influence on financial performance in the SACCOs. This practically implies that auditing has slightly affected the financial performance of SACCOs. In order to determine the magnitude of the influence of auditing on financial performance, a regression analysis was conducted.

The results are summarized in table 4.6;

**Table 4.6: Correlation coefficient showing the influence of auditing on financial performance**

R square = 0.22, p= 0.149		
	Standardized coefficient	
	Beta	Sig
Control internal activities	0.265	0.149

The third objective of assessing the effect of auditing on the financial performance of Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda, as per table 4.6 above, auditing strategies had a positive and significant effect on the financial performance of the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda ( $B=0.265$ ,  $P\text{-Value}=0.149$ ). The findings indicated a  $P\text{-Value}$  of 0.149, showing that there is a significant relationship between auditing and the financial performance of the SACCOs in Luwero town Council, Uganda. A beta of 0.265 indicated a positive relationship. In his study, Muio (2012) established that auditing had the highest influence on the financial performance of SACCOs as compared to the control environment and control activities respectively. The findings therefore are in support of this study through the fact that there is a significant positive relationship between auditing strategies and the financial performance of the SACCOs in Luwero town Council, Uganda.

#### 4.4.4 Control environment

This is the last objective of the study and it is analyzed in the table 4.7;

**Table 4.7: Control environment**

Control Environment	Mean	SA	A	N	D	SD
Our firm has an accounting and financial management system	3.8	13 22.4%	30 51.7%	6 10.3%	7 12.1%	2 3.4%
Management is committed to the operation of the system	3.8	5 8.6%	42 72.4%	4 6.9%	5 8.6%	2 3.4%
Management closely monitors implementation of Internal Control Systems in our organization	3.8	10 17.2%	35 60.3%	4 6.9%	9 15.5%	0 0%
Management provides feedback to the junior officers about the operation of the system	3.5	2 3.4%	35 60.3%	12 20.7%	7 12.1%	2 3.4%
Appropriate measures are taken to correct misfeasance in operation of our Accounting and Finance Management System	3.4	8 13.8%	21 36.2%	15 25.9%	12 20.7%	2 3.4%
Management acts with a great degree of integrity in execution of their roles	3.6	8 13.8%	26 44.8%	16 27.6%	8 13.8%	0 0%
Ethical values are upheld in all management decisions	3.6	10 17.2%	27 46.6%	13 22.4%	6 10.3%	2 3.4%
<b>Average 4.0</b>						

**Source: Primary data, 2018**

The study finding show in the table 4.7 that the internal control environment in the selected SACCOs is moderately positive (with average mean of 4.0).

The results show that the selected SACCOs have accounting and management system (mean 3.8). Management is committed to the operation of the system (mean 3.8).

Appropriate measures are taken to correct misfeasance in the operation of the system (mean 3.4) because the board sits monthly to evaluate and correct the errors occurred in the operations of the system.

The management closely monitors the implantation of the control systems in the organization (mean 3.8). This is evidenced by the meetings of the supervisory committee on monthly basis to account for management operations

It was concluded that SACCOs carry out control activities as a functionality of internal control of the SACCOs in Uganda.

#### 4.4.5 Testing the influence of internal control environment on financial performance of selected SACCOs in Luwero town council.

In order to determine the influence of internal control environment on financial performance of selected SACCOs in Luwero town council correlation and regression analysis was conducted.

The results are summarized in the table 4.8;

**Table 4.8: Relationship between internal control environment and financial performance**

Internal control environment	Personal correlation sig-(2-tailed) N	Internal environment	FP
		1	.335*
		58	.010
			58
Financial Performance	Personal correlation sig-(2-tailed) N	.335	1
		.110	
		-58	58

Source: primary data, 2018



According to the result table 4.8, internal control environment was found to have a positive relationship ( $r= 0.335$   $p<0.05$ ). This practically implies that FP in the selected SACCOs improves with better internal control environment.

In order to determine the extent to which the internal control environment influences financial performance, a regression analysis was carried out. The results are summarized in the table 4.9;

**Table 4.9: Correlation coefficient showing the influence of internal control environment on financial performance**

R. square = 0.112, $p= 0.010$		
	Standard coefficient	
Internal control environment	Beta	Sig.
	0.335	0.010

**Source: primary data, 2018**

This is the last objective of establishing the effect of control environment on the financial performance of Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda, control environment has a positive and significant relationship with the SACCOs in Luwero town Council Uganda' performance according to table 4.9 ( $B=0.335$ ,  $P\text{-Value}=0.010$ ). This was also in line with the findings of a study conducted by Mwachiro (2013) whose investigation showed that weak internal controls and especially poor ethical values in the organization have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of the study findings, the conclusions that were made from the findings and the recommendations given for policy improvement. The recommendations issued are significant in dealing with the frauds in the SACCOs in the sector towards the improvement in the SACCOs in Luwero town Council Uganda's financial performance.

#### **5.2 Summary of the Findings**

The study was undertaken with the aim of assessing the effect of internal control on the financial performance of Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda. The study was guided by three objectives; to establish the influence of control environment on the financial performance of SACCOs in Luwero town Council Uganda, to establish the effect of control activities on the financial performance of Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda and to assess the extent to which auditing influences the financial performance of SACCOs in Luwero town Council Uganda. The study collected data by the way of questionnaire; interview and also secondary data from SACCOs financial statements from 3 deposit taking SACCOs in LTC. For the study period spanning to 5 months with regard to data collected on the questionnaires and interviews of pertinent importance to this study included details on the positions of the person in the SACCO, time the SACCO has been in operation, size of the SACCO based on market share and deposits and respondents making ranking of their SACCOs on the indicators of control environment activities and auditing. Data was analyzed using SPSS upon which results were presented using tables and findings were then discussed in the succeeding sections.

### **5.3 Conclusions**

The study therefore based on the findings obtained in chapter four above concluded that Control environment within the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda is positively and significantly related to the financial performance of the SACCOs in Luwero town Council Uganda. The ability of the SACCOs in Luwero town Council Uganda to maintain a conducive environment for the internal control systems to be applied determines the ability of the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda to meet the customer needs and execute duties efficiently thus leading to improved performance of the organization.

The study gives evidence that the SACCOs in Luwero town Council Uganda' confidential information is a key asset to the SACCOs in Luwero town Council Uganda as access to unauthorized personnel may ruin the SACCOs and contribute to the threats of losses. The Management of every SACCOs has the core responsibility for designing, implementing and auditing their internal controls system. With appropriate control activities against frauds and other threats to the SACCOs in Luwero town Council Uganda' operations, SACCOs in Luwero town Council Uganda are in better performance position. Internal controls provide complete and accurate records are kept of transactions involving the SACCOs and the customers are secured.

The presence of auditing system for the SACCOs in Luwero town Council Uganda' operation is critical for the SACCOs in Luwero town Council Uganda' success in their service delivery. Internal controls need to be adequately audited in order to assess the quality and the effectiveness of the system's performance over time. The SACCOs in Luwero town Council Uganda have policies that facilitate adherence to the provisions of

their budget and ensuring that controls are in place to exclude incurring expenditure in excess of budgeted funds.

#### **5.4 Recommendations**

With reference to the study findings and conclusions provided, the following recommendations were given for policy improvement; control environment has a positive significant relationship with financial performance. The SACCOs should therefore ensure suitable control environment for security of the operation activities.

The management specifically senior risk manager and senior operations manager of the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda should therefore put in place effective and efficient security network to reduce frequent theft, threat to the SACCOs operations and property.

There is need therefore for the SACCOs in Luwero town Council Uganda to ensure suitable environment where internal controls are supported for improved performance of SACCOs in Luwero town Council Uganda. It is therefore important for Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda to implement proper risk assessment to guide their operations. Internal controls are key to the operations of the SACCOs in Luwero town Council Uganda.

To ensure effective controls, the SACCOs in Luwero town Council Uganda' management specifically the senior audit manager should facilitate conduction of regular checks on the ability of the strategies in place for internal controls in regards to efficient risk assessment. Therefore, the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda should regularly check on their operations and the policies to deal with threats to examine whether these meets all the SACCOs in Luwero town Council Uganda' requirements to safeguard the SACCOs in Luwero town Council Uganda from losses.

The study recommends that there is need for proper checks and balances in all financial transactions in the SACCOs in Luwero town Council Uganda where the SACCOs in Luwero town Council Uganda' management specifically senior risk manager should organize regular training for the staff on risk assessment and control mechanism towards effective security to the SACCOs in Luwero town Council Uganda' operations.

Control activity has a positive significant relationship with financial performance. There is need for the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda to implement efficient control activities to guide their operations. The SACCOs in Luwero town Council Uganda' management specifically the senior human resource manager should examine the level of employee integrity in allocating them responsibilities especially where employees are to deal with confidential information involving the SACCOs in Luwero town Council Uganda' vital documents. Therefore, employee integrity to hold the sensitive positions in the SACCOs in Luwero town Council Uganda should be checked to ensure that the positions are held by personnel who would save the SACCOs from internal threats in their operations. Auditing has a positive significant relationship with financial performance.

The SACCOs in Luwero town Council Uganda' auditing strategies should be geared towards effective operations and achievement of the organizational goals. There is need therefore for the SACCOs in Luwero town Council Uganda' management specifically the senior risk manager to ensure that there are policies in place guiding the SACCOs in Luwero town Council Uganda' dealing with threats to the SACCOs in Luwero town Council Uganda' operations. CBU prudential regulations have a significant influence on the relationship between internal controls and financial performance.

The CBU should ensure that the policies in place are strictly adhered to by the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda to safeguard their operations. Also, the CBU should provide more training to the SACCOs

in Luwero town Council Uganda' management on the effective auditing strategies and policies that they should apply to ensure increased profitability of the SACCOs in Luwero town Council Uganda.

### **5.5 Suggestions for Further Study**

Due to the innovative nature of the SACCOs, a similar study should be conducted after a period of 5years in order to investigate whether there are any areas of commonalities or unique factors. This is because the level of technology in SACCOs is very dynamic and keeps on changing. It would be interesting to conduct a study on the effect of internal controls on financial performance of Investment SACCOs in Luwero town Council Uganda; this will give a broader view on how internal controls affect not only the Selected Savings and credit Cooperative organizations in Luwero town Council-Uganda but also investment SACCOs in Luwero town Council Uganda.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

Dear respondent,

My name is Nakanjako Margret. I am currently carrying out a research for writing a dissertation as a partial requirement for the ward of Bachelors in Business Administration of Kampala international university.

Due to your membership in the organization you have been selected to participate in the study. The information you are going to provide will be treated with at most confidentiality and will be used for the purpose of this study. Only. Kindly read and answer according to the instructions.

#### **SECTION A: Organizational Demographics**

Please provide the required information by filling in the blanks where space has been provided or by ticking [ ] against the most appropriate answer.

Respondents name [Optional]

#### **1. What position do you currently hold in the Organization (SACCO) you work for?**

- a) Chief Executive Officer [ ]
- b) Senior Manager [ ]
- c) Manager [ ]
- d) Employee [ ]

#### **2. For how long has the SACCO been operating in Uganda?**

- a) Less than 5 years [ ]
- b) 5-10years [ ]
- c) 11-15years [ ]
- d) Over 15 years [ ]

#### **3. What is the size of your SACCO in terms of market share and deposits?**

- a) Large sized SACCO [ ]
- b) Medium sized SACCO [ ]

c) Small sized SACCO [ ]

**4. What is the current membership of you SACCO? [\_\_\_\_\_]**

**SECTION B**

This section examines the functionality of Internal Control Systems of SACCOs in Uganda?

Please rank the following statements on Likert Scale ranging from Strongly Disagree to Strongly Agree, where;

1 = Strongly Disagree

2 = Disagree

3 = Not Sure

4= Agree

5 = Strongly Agree

**5. Please rank the extent to which your organization practices the following control activities.**

<b>CONTROL ACTIVITIES</b>	<b>STRONGLY AGREE [5]</b>	<b>AGREE [4]</b>	<b>NOT SURE [3]</b>	<b>DISAGREE [2]</b>	<b>STRONGLY DISAGREE [1]</b>
Our organization has clear separation of roles					
Every employee's work is checked by others					
There is appropriate supervision by senior staff on the work done by their juniors					
Corrective action is always taken to address weaknesses					
Staff are trained to implement the accounting and financial management systems					
Our SACCO has a well developed Chart of Accounts					
It is impossible for a member of staff to have access to all valuable information without the consent of senior staff					
Controls are in place to avoid incurring expenditure in excess of allocate funds					
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					
Our security system identifies and safeguards the organization's assets					

**6. Please rank the extent to which your organization practices the following internal audit activities.**

<b>AUDITING</b>	<b>STRONGLY AGREE [5]</b>	<b>AGREE [4]</b>	<b>NOT SURE [3]</b>	<b>DISAGREE [2]</b>	<b>STRONGLY DISAGREE [1]</b>
Our SACCO has an internal audit department					
Our internal audit function is sufficiently staffed					
Internal audit staff conduct regular audit activities in our organization					
Internal audit reports address weaknesses in our internal control system					
Internal audit reports are produced regularly					
Management discusses internal audit reports frequently					
Internal auditor makes appropriate recommendations for management to improve upon					
Internal audit staff visit up-country branches often					
Internal auditor issues reports on up-country branches regularly					
Internal auditor performs his duties with a greater degree of autonomy and independence from management					

**7. Please rank the extent to which your organization controls the environment.**

<b>CONTROL ENVIRONMENT</b>	<b>STRONGLY AGREE [5]</b>	<b>AGREE [4]</b>	<b>NOT SURE [3]</b>	<b>DISAGREE [2]</b>	<b>STRONGLY DISAGREE [1]</b>
Our firm has an accounting and financial management system					
Management is committed to the operation of the system					
Management closely monitors implementation of Internal Control Systems in our organization					
Management provides feedback to the junior officers about the operation of the system					
Appropriate measures are taken to correct misfeasance in operation of our Accounting and Finance Management System					
Management acts with a great degree of integrity in execution of their roles					
Ethical values are upheld in all management decisions					

***Thank you for your participation and time***

## APPENDIX II: INTERVIEW GUIDE

Dear respondent,

My name is Nakanjako Margret. I am currently carrying out a research for writing a dissertation as a partial requirement for the ward of Bachelors in Business Administration of Kampala international university.

Due to your membership in the organization you have been selected to participate in the study. The information you are going to provide will be treated with at most confidentiality and will be used for the purpose of this study. Only.

Kindly respond to these questions.

1. What is your position in this SACCO?
2. In your opinion does the SACCO operates internal control system? If so how does your role support it?
3. Are the systems of internal control referred to 3 above functional as they are intended to?
4. In your opinion what would you consider the main measure of financial performance in SACCOs?
5. In your opinion do you think the accountability process in SACCOs in adequate? Give reason to your answer.
6. How do you rate the reporting process in your SACCO?
7. In your opinion do you think timely accountability is the best measures of financial performance?
8. Does compliance with laws regulations procedures increases financial performance of a SACCO.

**APPENDIX-III: RESEARCH BUDGET**

<b>ITEMS</b>	<b>QUANTITY</b>	<b>UNIT COST</b>	<b>AMOUNT</b>
Ream of papers	1	17000	17000
Editing, printing and binding			50,000
Refreshments			20,000
Transport			20,000
miscellaneous			30,000
			137000

**APPENDIX IV: GHANT CHART SHOWING THE TIME SCHEDULE FOR THE RESEARCH**

ACTIVITIES	TIME (WEEKS)				
	Feb 2018	March 2018	April 2018	May 2018	June 2018
Study analysis					
Proposal development					
Proposal submission					
Report writing					



**APPENDIX V: MAP OF LUWERO DISTRICT AND ITS MAJOR TRADING TOWNS**



**Source: Google satellite**

## APPENDIX VI: INTRODUCTORY LETTER



KAMPALA  
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### COLLEGE OF ECONOMICS AND MANAGEMENT DEPARTMENT OF ACCOUNTING AND FINANCE

April, 27<sup>th</sup> 2018

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR NAKANJAKO MARGRET  
REG NO 1153-05014-00086**

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

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

**Topic: - INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF SELECTED SAVINGS AND CREDIT CORPERATIVE ORGANISATIONS (SACCOS) IN LUWERO TOWN COUNCIL-UGANDA.**

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

We shall be grateful for your positive response.

Yours truly,

  
DR. JOSEPH B.K. KIRABO  
HOD - ACCOUNTING AND FINANCE  
0772323344