INTERNAL CONTROL AND PERFORMANCE OF COMMERCIAL BANKS IN UGANDA. 
A CASE STUDY OF EQUITY BANK, JINJA ROAD BRANCH, KAMPALA-UGANDA. 

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A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR’S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY 

JUNE, 2012
DECLARATION

I, MULABIZA HADIJA, declare that this dissertation presented to the College of Economics and Management Sciences of Kampala International University is my original work and has never been submitted to any institution for any award.

Signature

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This research dissertation has been done under my supervision as a University Supervisor and submitted to the College of Economics and Management Sciences for examination with my approval.

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DEDICATION

This Dissertation is dedicated to my beloved parents, my brothers and sisters, all friends and Equity bank staff- Jinja Road branch for the great contribution they rendered to me in order to come up with this Dissertation.
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First and foremost, I give honor and glory to the almighty God who gave me good health, wisdom, knowledge and hope in this study.

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ABSTRACT

The study sought to establish the role of internal control systems on the performance of commercial banks and was driven by three objectives. These were; to investigate the effects of internal control system on the performance of Equity Bank, to determine the different types of internal control systems used by Equity Bank and to establish the relationship between internal control system and performance of Equity bank.

To achieve these objectives, the researcher sampled forty four respondents (44) from Equity Bank-Jinja Road branch.

The research was guided by three research questions. The first research question sought to find out the relationship between internal control systems and the performance of commercial, research question two sought to find out the effects of internal control systems on the performance of commercial and the third research question therefore sought to find out the types of internal control systems used by Equity.

The findings revealed that; physical control over cash included sale, cash boxes. Most of the disbursements were made by cheques and the minor through petty cash fund.

The recommendations to Equity Bank were; Proper adoption of organization plan, Control of transaction, Prevention of fraud, separation of accounting and custody of assets, prevention of fraud among others.
CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The need for internal control systems dates back to the time managers and other stakeholders needed to manage or ensure informed discussion making. Internal control systems become necessary so as to guide, control or protect both the financial resources, human resources and the activities of the organization across all the various departments of marketing, production, human resource and finance department.

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

During the mid 1970, internal control systems became so relevant and called for as it was reported in the foreign corrupt practices Act (FCPA). According to its numerous American Corporations made payments which were actually bribes to officials in other countries which those payments were made through, they were outside the American standards of business ethics. It was also proved that these payments were made without the knowledge of top executives of the Corporation. Entity (ies) that were involved in the payment. Because of these loopholes that were prevalent and lack of proper internal control system, the congress ordered an end in the practice in 1977 where payments to foreign officials for the purpose of securing business was strongly restricted and prohibited by congress.
Equity Bank is the largest bank in Kenya with around half of all bank accounts in the region and was also the best performer amongst listed blue chip stocks on the Nairobi Stock Exchange (NSE) in 2008. Equity Bank has won numerous banking, microfinance and investor awards over the past two years and recently expanded into neighboring Uganda.

Equity Bank acquired Uganda Microfinance Limited (UML) in June 2008 and is set to rebrand UML’s branches by February 1st, 2009 and intends to grow its customer base there by lowering interest rates on loans. UML, which has 83,000 depositors and 15 branches throughout Uganda, was Equity Bank’s first major acquisition outside Kenya.

1.2 Statement of the problem

Commercial banks play a leading role in economic growth especially through credit creation in the economies where capital markets are not yet fully developed.

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

This puts the performance of commercial banks in doubt and daunting hence generally unsatisfactorily.

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

1.3 Purpose of the study
The purpose of the study was to assess the role of internal control system on the performance of commercial banks in Uganda taking a case study of Equity Bank – Jinja Road branch.

1.4 Scope of the study
1.4.1 Content Scope
The researcher carried out her study in a banking institution in Equity Bank, Jinja Road branch on the role of internal control system on the performance of commercial banks. The study was confined to three major types of internal control systems (detective, corrective and preventative) as the presumed to enhance performance of commercial banks. Internal control measures like segregation of duties, authorization and approval, qualified personnel, arithmetic and counting, supervision. Performance of commercial banks included the going- concern of a bank, increase in job creation, and increase in number of people who use bank, increase in profitability and reduction in operational costs among others.

1.4.2 Geographical scope
The study was carried out in Equity Bank, Jinja branch which is found in Kampala district, Central Division along Kampala-Jinja.

1.4.3 Time scope
The researcher carried out her study in a banking institution (Equity Bank) on the role of Internal Control Systems on performance of commercial banks. The study took 2 months from April to May 2012.
1.5 Objectives of the study
1. To investigate the effects of internal control systems on the performance of Equity Bank.
2. To determine the different types of internal control systems used by Equity Bank
3. To establish the relationship between internal control system and performance of Equity bank.

1.6 Research Questions
1. What were the effects of internal control system on the performance of Equity bank?
2. What were the different types of internal control systems used by Equity Bank?
3. What was the relationship between internal control system and performance of Equity bank?

1.7 Significance of the study
The study added to the existing stock of knowledge as regards to the effects of internal control systems on performance of commercial banks.

The researcher’s findings was a guide to future researchers on how they can collect data, analyze data, interpret and communicate them to relevant authority so as to help in policy making formulation.

The study helped to identify the gaps and saw how they could be filled so as to reduce the loophole that exited in the internal control systems that most fraudulent and corrupt officials used to commit errors and omissions.

The decision makers use the study findings for exacting policies and laws that are to be followed by any banking institutions so, as to maximize the objectives or reasons of its existence. The decision makers can be from within Equity Bank or other banking institutions.

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

Independent Variable
- Internal control

Positive Role
- Customer satisfaction
- Good record keeping
- Proper accountability
- Proper planning

Negative Role
- Lack of customer satisfaction
- Poor record keeping
- Poor accountability
- Forgery, fraud

Performace

Dependent variable

The proper internal control systems has led to good record keeping, proper accountability, avoiding falsification of financial record and good customer satisfaction.

And when the internal control systems are abused, it leads to lack of customer satisfaction, poor planning and poor record keeping coupled with forgery and fraud.
1.9 Hypothesis

There was no significant relationship between internal control systems and performance of commercial banks in Kampala Uganda.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
In this chapter, the researcher reviewed the literature related to the topic under investigation which was the role of internal control systems on the performance of commercial banks (A case Study of Equity Bank-Jinja Road branch).

In this chapter, also the researcher examined the different types of internal control systems, the relationships between internal control system (ICS) and performance, definition of concepts, the principles under which internal control system work (principles governing internal control system (ICS)).

2.1. Definitions of concepts
Donald A. Watne and Peter B.B. Turney (1984) auditing EDP systems, defines internal control systems as that it compresses the plan of organization and all of the methods and procedures adopted by a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

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

Belverd E. Needles JR, financial accounting, 5th edition defines internal control as all the policies and procedures management uses to protect a firm’s assets and to ensure the accuracy and reliability of the accounting records. It also includes controls that deal with operating efficiency and adherence to management policies. In other words, management wants not only to safeguard assets and has reliable records but also to maintain an efficient operation that follows its policies. To this end, it established an
internal control instructive that consists of three elements, the control environment, the accounting system, and centered procedures.

Kenny Thomas (1995) defines performance as the way in which an activity was accomplished in a particular level or standard to which a task was achieved within a working environment. It also added that control comprises of those elements of an organization that was taken together to support people in the attainment of the objective of an organization.

2.2 Relationships between internal control systems and performance

Wouldiam W. Dyte and Kermit D. Larson F. A P, 10th edition degree that internal control systems help in adherence to prescribed managerial policies. According to them as business grows, it becomes difficult to maintain or manage – person staff of the entity or organization. Therefore at some point, it becomes increasingly necessary to delegate responsibilities or power and internal control procedures rather than personal control in controlling the operations of the business or organization.

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

Didnald E. Kewaso (2002) in his book accounting principles, cities an example of a computer operator who was reported in the financial press to have embezzled 21 million from Wells Forgo Bank. Another example cited was the sipping Clerk who was reported to have shipped merchandise worth dollar 125,000 having served or worked for 28 years. It was therefore likely that ill-equipped internal control systems
encourage falsification of accounting records corporations, fraud and embezzlement among other internal practices.

O. Ray, Whittington & Walter, B. Mages (1992), 10th edition principles of auditing performance of corporations in United States. Thwas foreign corrupt practices Act (FCPA) stressed the need for corporations or organizations to maintain adequate controls. Thwas was emphasized after it was realized that the corporations used illegal payment which was not in accordance with the American standards of business ethics.

2.3 Principles of internal control systems

Control procedures

Phillip E. Fess and Carl S. Warren (1990), 16th edition. Accounting principles wages that control procedures or principles were those policies and procedures that management has put in place within the control environment in order to provide reasonable assurance that enterprise goals would be achieved. General control procedures which can be integrated throughout the accounting system all therefore;

Separation of duties must be maintained and competent personnel. Phillip E. Fess and Carl S. Warren in their book- accounting principles urges that the internal controls responsibility for each task must be clearly established and one person made accountable for its fulfillment. When the responsibility was not clearly spelled out it was difficult to determine who was at fault when something goes wrong. For example when two sales/ clerks hard access to the same cash register and there was a shortage it may not be possible to tell which clerk was at fault. Each tends to blame the other. Neither can prove that he or she did not cause the shortages to prevent this problem, one clerk should be given responsibility for making all change. Alternatively, the business can use a register with separate cash drawers for each operator.
i) Internal auditing principle

Walter B. Mages (1987), 3rd Canadian edition in his book principle of accounting defines auditing as the searching and investigation of the accounting records and other evidence supporting those financial statements. He emphasizes that the objective of the internal control auditors were to monitor and improve the system of internal control. He adds that auditors should test and evaluate both accounting controls and administrative controls in all areas of the organization and prepare reports to management on their findings and recommendations.

Pre-numbered document, according to Robert F. Mergs and Walter B. Mergs (1993) in their book of accounting, stressed that important forms such as cheques, sales invoices, purchase orders, were usually serially prenumbered and subsequently accounted for. This practice permits the discovery of wasting documents by detecting a break in the numbering scheme. An investigation can then commence to locate the source of the problem.

ii) Limited access to assets

Robert F. Mergs university of San Diego stated that the safe guarding of assets was a stated objective of internal control. One way to achieve this was objective was by limiting the access to assets to only a few authorized personnel. Limited access may take different forms. He added that, customers normally were not permitted in the back of a store to roam freely through the merchandise awaiting sale. They were reserved for employees only; furthermore, access to a company’s mainframe computer and valuable only after a secret password was entered in to a computer terminal. The password was known by a few selected people. And lastly, when many retail establishments close for business at the end of the day, the cash that has been collected was often counted in a lacked room. All these procedures were in place to ensure that assets were sequentially protected from theft and unauthorized use.
iii) Separate record – keeping and custody over assets.
Kermit D. Larson and John T. Wild (1999), 15th edition in their book, “Fundamentals of Accounting Principles” emphasizes that the person who has access to or otherwise responsible to an asset should not maintain the accounting record for that asset. When this principle was followed, the custodian of an asset knowing that a record of the asset was being kept by another person, was not as likely to misplace, misappropriate, or waste the asset, they also urge that the record-keeper who did not have to agree to commit a fraud (called collusion) so if this chart was not set up or was used incorrectly, managers might never discover excessive expenses or inflated sales.

Insure asset and bond key employees. An employee was bonded when a company purchases an insurance policy or a bond against loses from theft by that employee. Barbara Chiappetta (1999) urges that good internal control means that assets were adequately insured against casualty and employee handling cash and negotiable instruments should be bonded. So as to reduce the risk suffered from theft and to discourage theft because employees did know that an independent bonding company involved when theft was endured.

iv) Record of cheques drawn
A memorandum record of the basic details of a cheque should be repaired at the time the cheque was drawn. The record may be a stub (the counterfoil of a cheque) from which the cheque was detained with the cheque forms each type of record should provide spaces for recording deposit was and the current bank balance. This should be in addition to the mortification or a remittance adverse which makes sure that proper credit was recorded in the accounts of the creditors.

Maintenance of bank accounts. Phillip E. Fess and carls Warren (1990), 16th edition in their book, “accounting principles” urge that all cash received must be deposited in the bank and payment must be made by cheques drawn on the bank or from special cash
funds. When such a system was strictly followed, there was a double record of cash, one maintained by the business and the other bank.

v) The voucher system
C. were S. Warren in his book account principle defines a voucher as any document that serves as proof of authority to pay cash such as an invoice made up of records, methods and procedures used in proving and recording liabilities and in making and recording cash payment. Thwas helps to trace for voucher and cash since it consists of vouchers, register of file for paid vouchers.

Another definition was a voucher system was a set of procedures designed to control the inconvenience of obligations and disbursement of cash this kind of system;

Establishes procedures for incurring obligations that result in cash disbursements such as permitting only authorized individuals to make purchase or commitments.

Provides established procedures for verifying, approving and recording these obligations.

Permits cheques to be used only in payment of property verified, approved and recorded obligations.

Requires that every obligation be recorded at the time it was incurred and that even transaction complete in itself.

However A voucher was an internal business paper used to accumulate other papers and information needed to control the disbursement of cash and to ensure that the transaction was properly recorded.

Computers reduce processing errors. Walter B. Meigs E. John Larsen, Robert F. Meigs (1977), 6th edition principles of auditing emphasizes that computers reduce the number of errors in processing information once the data were entered correctly, the possibility of mechanical and mathematical errors in largely eliminated. On the other hand, they urged that data entry errors may occur because the process of entering data may be
more complex in a computerized system. Also the lack of human involvement in later processing may cause data entry errors to go undiscovered.

vi) Use mechanical devices whenever practicable.

Walter B. Meigs, E. John Larson Robert F. meigs (1977), 56th edition "Principle of auditing states that cash register check protectors, time clock and mechanical counters were examples of control devices that should be used whenever practicable. To them, a cash register with a locked-in-tape makes a record of each cash sale. A check protector perforates the amount of a cheque into its face and makes it difficult to change the amount. A time clock register the exact time an employee arrives on the job and the exact time the employee departs. Using mechanical change and more accurate than counting by hand and reduces the possibility of loss.

Perform regular and independent reviews. Even a well designed internal control system has a tendency to deteriorate as time passes. Changes in personnel and computer equipment present opportunities for short cuts and other omissions. The stress of time pressures tends to bring about the same results. Thus, regular reviews of internal control system were needed to be sure that standard procedures were being followed.

To them, where possible, these reviews should be performed by internal auditors who were not directly involved in operations. From their (auditors) independent perspective, internal auditors can evaluate the overall efficiency of operations as well as the effectiveness of the internal control system. However before CPAs decide on how much testing they must did they first evaluate the effectiveness of the internal control system. When making their evaluation they can find whereas for improvement and offer suggestions.
vii) Properly remuneration system
Robert W. Ingram and Thomas L. Albright (2001) in their books – accounting information for decision, 2nd edition, stress that there ought to be proper remuneration system schemes for the skills rendered to the organization/ entity/ enterprises so as to close avenues or possibilities of falsification of the accounting records. These schemes should be clearly spelt out for the skills and efforts rendered by employees such as cashiers, accountants/ auditors to the institutions or organization since they were the ones who directly or indirectly deal with the firms cash items.

2.3.1 Various types of internal control systems (ICS)

a) Preventive
Penne Ainsworth and Dan Deines (2004). In their book, cited that preventive internal control systems aims at preventing or avoiding the risks from directly “fakery, preventative added that policies and activities such as segregation of duties, use of serially prenumbered documentary, proper remuneration systems, limits access to assets and among others were aimed at prevention of fraud, corruption and embezzlement.

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

c) Corrective controls
This control addresses any problems that have occurred. Where problems were identified those controls that would ensure that the problems were properly rectified, examples include follow-up procedures and management action.
2.3.2 Limitations of the internal control system

Roberts F. Meigs, Mary A. Mark better ad Ray Wittington, 10th edition, "Accounting for business decisions" they urged, although internal control system was highly effective in increasing the reliability of counting data and safeguarding assets, a complete protection against fraud, theft or errors for example control based upon sub-division of duties may be defeated – at least temporarily by collusion among two or more employees, who are careless also may cause a break down in internal control system. The principle of reasonable assurance rests on the promise that the costs of establishing control procedures should not exceed their expected benefit. However, a control structure which was too elaborate may entail greater expense than was justified by the protection gained.

Internal control system was small business was more difficult to achieve than in a large one. In a business with only a few employees, it may not be possible arrange an adequate sub-division of duties. Also such internal control features as an internal audit staff simply may not be practical.

The human element was an important factor in every system of internal control. Jerry T. Weygandt, Didnald E. Kieso and Paul D. Kimmel, principles of Finance accordingly emphasize that good system can become ineffective due to employees fraud including theft of assets, changing lower sales prices to favour customers, receiving, "kick back" from suppliers over stating hours worked "adding" expense accounts and embezzlement.

Effective internal controls imply the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether an organization achieves operational strategic objectives may depend on factors outside the scope of internal control; therefore effective internal control provides only time information of feedback in progress towards the achievement of operational strategic objectives, but cannot guarantee their achievement.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
This chapter discussed the operational framework within which the fact of the study was gathered. It covered sections on study design, area and population of the study, the nature and composition of respondents, instruments of data collection, sampling design and data collection procedures.

In this chapter, the researcher identified, specified and discussed all the possible methods which were applied in carrying out the study. Both qualitative and quantitative techniques of data collection and analysis were used since one research method could not yield an authentic report on the relationship between internal control systems and performance of commercial banks.

The Research design is a case study of Equity Bank Jinja Road Branch
This was a case study of Equity Bank Jinja Road branch. The study was a descriptive cross section survey. The objective of descriptive research was to portray a profile of persons, situations or events (Saunders et al, 2000).

3.1 Study population
The study population was 50 people which included the providers and receipts of Equity banking services especially Jinja Road branch since the researcher easily travelled to the field to collect data. The Equity bank staff and non staff helped the researcher to have a clear view and balanced understandings of services offered by and hence, assessed the role of internal control on the performance of the bank.
3.2. Sample design
This is a technique of data collection, whereby the researcher applied in drawing inferences based on the information collected about the target population. Under sample design, the researcher applied collection of data by using probability of simple random sample technique, with the collection of data from a sample of units (purposive/judgmental sample) that was selected from the target population with the intention that they represented the population.

3.2.1 Sampling procedures
The sampling methods involved purposive random sampling since it was extensively used in the exploratory research stage and was very valuable in the making of a final questionnaire. This method also took care of non responses and accurate information was obtained perfectly. Consequently, it gave the random size equal chance of participating and being selected. The sampling procedure involved a series of steps as shown here-under.

3.2.2 Sample size
In order to be acceptable, a sample size must be representative of the target population (Kunene, 2008). A very small sample size undermines the power of statistical tests of significance (Hair, et al, (1998). The study involved a target population of 50 employees from Equity bank- Jinja Road.

The Sloven’s formula is used to determine the minimum sample size.

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

Where; n= the required sample size; N= the known population size; and e= the level of significance, which is = 0.05 and 1 is constant.
\[ n = 50 \\
1 + 50(0.05^2) \]
\[ n = 50 \\
1 + 50(0.0025) \]
\[ n = 50 \\
1 + 0.125 \]

N = 50

1.125

Sample = 44 respondents

3.3 Data collection instruments

The researcher used both qualitative and quantitative techniques of data collection such as; questionnaires and documentary review of data collection.

3.3.1 Questionnaires

The questionnaires were self administered to individuals who were the respondents. The questionnaires included both structured and non-structured questions. The respondents were approached and distributed with questionnaires which they filled with the answers of different views.

The researcher employed this instrument because it covered a large number of respondents relatively at a shorter time. Besides, questionnaires allowed the respondents to give free and independent opinions because they were not affected by the presence of the researcher. As well, respondents were expected to answer even sensitive questions since they were not identified by their names.
3.3.2. Interviews.
The research involved interpersonal talk between the researcher and different respondents in order to obtain useful information about the roles of internal control on performance of commercial bank.
The researcher employed this method because interviews were easily administered for example they did not require respondents to have ability to read, write and handle complex documents or long questionnaires.

It created a right type of friendly atmosphere which was very conducive for obtaining desired data.
It was often perceived as a cooperative venture because personal contract gave emphasis.

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

It allowed discussions of the meaning to the questions to eliminate ambiguity, provided an opportunity of correcting misunderstandings by the researcher and the respondents, which was not common with other forms of data collection.

Interviews gave a strong assurance and guarantee to the interviewee that the facts were properly used and safeguarded.

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

The researcher used this method because it employed relatively less complicated and less time consuming procedures of the selection.
It approached reality in its natural stricture and studies events as they value.

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

It provided first hand information which was more valid than reported information obtained from questionnaires and interviewers.

3.3.4 Documentary review
In this, the researcher made a research by carefully studying written documents, or visual information from different libraries reviews literature, related to the study basing on the objectives of the study.

This data collection instrument had the following importance; related data was given direction when setting questionnaires, this was the basis for further studies in the same field by acting as a reference book.

3.3.5 Data sources
The sources of data collection were both primary and secondary. These included the following.

3.3.6 Primary data.
This was the first hand information that was collected from the field by the aid of techniques like interview guide, questionnaires, observation and reference to the secondary data.
3.3.7 Secondary data
Under secondary data, information were extracted from the text books and work of other scholars whether published magazines, written data source including published and un published documents agency reports, news papers articles, internet sources, proposal books, local government, acts among others so as to obtain relevant information.

3.4 Ethical consideration
Before going to the field, the researcher began with getting authorization letter from the Dean of School of Business and Management then took it to the respondents and this enabled the researcher attain adequate information from the respondents. During the process of data collection, confirmation was given to the respondents in that the researcher assured the respondents that the reason for the research was for only academic purpose and that no information would be disclosed.

3.5. Limitations of the study.
The researcher finished the research successfully however; he faced the following challenges in the course of the study.

The time given to the researcher to complete the research was too short since the maximum time for completing research report was only two months which could not give room for detailed study about internal control and performance of commercial banks.

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

Some respondents feared to disclose off the secrets of the organization thinking that the information could be used for other purposes other than academic.
CHAPTER FOUR
PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

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

<table>
<thead>
<tr>
<th>Age</th>
<th>18-25</th>
<th>25-30</th>
<th>31-36</th>
<th>37-40</th>
<th>Above 43</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freq</td>
<td>7</td>
<td>7</td>
<td>17</td>
<td>9</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>(%)</td>
<td>15</td>
<td>15</td>
<td>40</td>
<td>20</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

*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 4.2 shows the gender of the respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>26</td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td>(%)</td>
<td>60</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

*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.
Fig 1 is the pie 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 4.3 shows the marital status of the respondents

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Single</th>
<th>Married</th>
<th>Divorced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>18</td>
<td>22</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>40</td>
<td>50</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data
The table above reveals the marital status of the respondents of the questionnaires. Out of forty four respondents, eighteen (18) were single, twenty two (22) were married and four (4) were divorced. In terms of percentage, the respondents may be represented by 40%, 50% and 10% respectively.

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

![Pie chart showing marital status](image)

*Source: primary data*

The pie chart above shows the marital status of the respondents of the questionnaires. Out of forty four respondents, eighteen (18) were single, twenty two (22) were married and four (4) were divorced. In terms of percentage, the respondents are represented by 40%, 50% and 10% respectively.
Table 4.4 shows the level of education of the respondents

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Diploma</th>
<th>Professional course</th>
<th>Bachelor in A/c field</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>9</td>
<td>13</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>20%</td>
<td>30%</td>
<td>50%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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% posses professional course of CPA (U) and 50% posses bachelor's degree in Accounting and Finance.

Fig 3: The pie chart showing 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% posses
diploma course certificate, 30% posses professional course of CPA (U) and 50% posses 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 may influence either way organizational performance were thoroughly measured. 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

<table>
<thead>
<tr>
<th>Department</th>
<th>Accounts</th>
<th>Loan</th>
<th>Administration</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>13</td>
<td>13</td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>30</td>
<td>30</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

The table above shows the importance of internal controls to different departments at Equity bank. Out of the total respondents of forty four people, thirteen (13) said internal controls are important to Accounts and Loan departments and eighteen (18) respondents said it is important to administration department. In terms of percentage, these respondents may be represented by 30%, 30% and 40% respectively.
Source: primary data

The pie chart above shows the importance of internal controls to different departments at Equity 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 Equity bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>40</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>90</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

The table above shows that there are internal control systems in place in Equity bank. Out of forty four (44) respondents, forty (40) said there are internal control systems in place and only four (4) said there are no internal control systems in place in Equity.
In terms of percentage, these respondents are represented by 90% and 10% respectively.

**Fig 5:** The pie chart showing whether there are internal controls in place in Equity bank

---

**Source:** primary data

The pie chart above shows that there are internal control systems in place in Equity 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 Equity bank.

Table 4.7 shows how internal controls are related to performance

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>31</td>
<td>13</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>70</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** primary data
Table 4.7 shows how internal control systems are related to performance in an organization like Equity bank. The table reveals that out of 44 respondents, who were randomly selected to answer the questionnaires, 31 of them said internal controls are related to performance in Equity bank and 13 said internal controls are not related to performance in Equity bank. This means that on this basis, 70% of the respondents said yes while 30% of the respondents said no.

**Fig 6:** The pie chart showing internal controls are related to performance in Equity bank

![Pie chart showing internal controls related to performance in Equity bank](image)

**Source: primary data**

The pie chart above shows how internal control systems are related to performance in an organization like Equity 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 Equity bank and 30% said internal controls are not related to performance in Equity bank.
Table 4.8 shows the categorization of internal control systems

<table>
<thead>
<tr>
<th>Categories</th>
<th>Protective</th>
<th>Detective</th>
<th>Corrective</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>18</td>
<td>13</td>
<td>13</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>40</td>
<td>30</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: primary data*

The table above describes the categories of internal control systems in Equity bank. Out of the total respondents of 44, eighteen (18) said protective, thirteen (13) said corrective and detective internal control systems are used in Equity bank.

In terms of percentage, these may be represented by 40%, 30% and 30% respectively.

Fig 7: The pie chart showing the types of internal control system

The pie chart above describes the categories of internal control systems in Equity bank. Out of the total respondents, 40% said protective, 30% said corrective and detective internal control systems are used in Equity bank.
1. The table suggests whether there are internal control procedures

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>37</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>85</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

In the determination of whether there are internal control procedures for the types of internal control systems, out of 44 respondents; 37 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.

Fig 8: The pie chart showing whether there are internal control procedures

Source: primary data
In the determination of 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 5.0 Shows whether the management of Equity bank is doing something in order to address the problems faced in the implementation of internal control systems

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>40</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>90</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

The table above shows what the management of Equity bank is doing in order to address the problems faced in the implementation of internal control systems. Out of forty four (44) respondents, eighteen (40) said yes and only four (4) said no. In terms of percentage, these respondents are represented by 90% and 10% respectively.
The pie chart above shows what the management of Equity bank is doing 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 Equity bank is using detective, preventative and corrective measures when implementing internal controls.

Table 5.1 shows the implementation of internal control process, policies and procedures

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>40</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>90</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

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, forty (40) 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, four 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 5.2 other controls other than physical and security control

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>33</td>
<td>4</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>75</td>
<td>10</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data
The table above revealed that 33 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.

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 7 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.

**Fig 10: 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. Furthermore, additional 10% of the respondents were not sure whether there were other controls other than physical and security.

*Table 5.3 shows how internal control is efficient and effective in performance of Equity bank.*

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>22</td>
<td>11</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Primary data*

From the above table, 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.

5% were not sure and another 25% said internal control is not efficient and effective in the performance of Equity bank.

**Fig 11:** The pie chart showing how internal control is effective and efficient in the performance of the bank

![Pie chart showing internal control effectiveness](image)

**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.

5% were not sure whether internal controls were efficient and effective in the performance of Equity bank whereas another 25% said internal control was not efficient and effective in the performance of Equity bank.
Table 5.4 shows whether internal control process, policies and procedures are satisfactory in Equity bank

<table>
<thead>
<tr>
<th>Responses</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>35</td>
<td>4</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>80</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

*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 of 44, 35 respondents said the controls, policies and procedures were satisfactory, 4 disagreed and the last 4 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;
Fig 12: The pie chart showing whether internal control, processes, policies and procedures are satisfactory in Equity 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 Equity 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 procedures 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 Equity bank and another 10% of the respondents were not sure whether internal control processes, policies and procedures were implemented in the Equity 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 specialization.

4.3 PRESENTATION OF OTHER FINDINGS

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

a. 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 if implementation of internal control systems in Equity 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 certain factors that could undermine the effective operation of an internal control system, some of which could be outside the control of management.

- Management has to ensure that the benefits expected from an internal control system outweigh the costs. As a result, certain important controls like computerization of all activities within and outside the bank has not fully been put in place because it is very expensive.

- Most internal controls in Equity 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.

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

4.3.3 What the management of Equity bank is doing to minimize the problems of internal control system

a. Control over disbursement of cash

Most of the disbursements of Equity 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. Equity 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.
a. **Vote book**

This is the column sheet bound together in the form of the book or register is used by Equity 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.

b. **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.

c. **Internal control over cash**

Equity 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.
D Physical control

The physical control over cash of Equity bank comprises of safes, cash boxes and strong room and more over the custody of documents and records. The Equity 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 OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

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 Equity 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 OF FINDINGS.

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 Equity bank. It was viewed that, internal control plays important roles in the performance of Equity bank. The roles played by internal control systems in the performance of Equity 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 Equity bank.

5.2 CONCLUSIONS

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 Equity bank. Therefore, it is very important to note that, internal control systems play an important role in the performance of commercial banks especially Equity 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 Equity bank to implement satisfactory control such as proper authorization of funds, lack of active internal audit unit in big organization like Equity 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 Equity 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 RECOMMENDATIONS

On the basis of this research work performed, the researcher recommended the following with the aim of improving the internal control systems of Equity bank 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. Equity 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 would be 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 let's 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 Equity bank should consider this fact and minimize the possibility as quick as possible to be free from this risk.

5. **Furthermore**, Equity 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 Equity bank and GAAP as well.
REFERENCES:


Adidlp Malz and other J. Curry cost accounting planning and control, Sothern- Western publishing company England.


APPENDIX 1

RESEARCH INSTRUMENTS

a) QUESTIONNAIRES
I'm Bulabiza Hadijah pursuing bachelor's degree in Business Administration with Accounting option from Kampala International University. I'm conducting a research on "The role of internal control systems on the performance of commercial Banks a case study of Equity bank, Jinja Road branch". The purpose of this study was to fulfill my academic requirements. Therefore, I kindly request you to answer the following questions. Your responses were treated with the highest degree of confidentiality. The data gathered were 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) 20-25  c) 36-40
   b) 26-30  d) 41Above
4. Level of education
   a) Certificate
   b) Degree
   c) Diploma
   d) Other professional certificates

Fill in the Blank spaces
5. What is 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. Did you have internal control systems in place in Equity Bank Jinja Road branch?
   a) Yes
   b) No

9. Are internal control systems related to performance of an entity?
   a) Yes
   b) No
10. Are there any categorizations of the internal control systems in Equity bank?
   a) Yes  
   b) No

11. Please tick the different types of internal control systems that are in Equity bank Jinja Road branch.
   a) Protective
   b) Detective
   c) Corrective

12. Are there internal Control procedures for the above types of internal control systems?
   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 Equity bank?
   i) .................................................................
   ii) .................................................................
   iii) .................................................................

15. Are there some things the management of Equity bank is doing in order to address the problems that are stated above?
   a) Yes
   b) Nothing
   c) No
   d) Minimum
b) INTERVIEW GUIDES

1. What is internal control system(s)?

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

3. Give the importance of internal control system in the following departments.
   a) Accounts
   b) Loan
   (c) Administration or management

4. Are there internal control systems put in place in Equity Bank?

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

6. Are there any categorizations of the internal control systems in Equity bank?

7. What are the different types of internal control systems that are in Equity bank Jinja Road branch?

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

9. What problems have been faced in the course of implementation of internal control systems in Equity Bank?

10. Are there some things the management of Equity bank is doing in order to address the problems that are stated above?
APPENDIX II:

THE TIME FRAME OF THE STUDY

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<tr>
<td>Data collection</td>
<td>April to May</td>
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<td>Data compilation</td>
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APPENDIX III:

BUDGET FOR THE STUDY

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