



# International Journal of Finance and Accounting

ijfa.eanso.org

Volume 2, Issue 1, 2023

Print ISSN: 2790-9581 | Online ISSN: 2790-959X

Title DOI: <https://doi.org/10.37284/2790-959X>

**EANSO**

EAST AFRICAN  
NATURE &  
SCIENCE  
ORGANISATION

Original Article

## The Internal Control System and the Performance of Financial Institutions in Uganda

Dr. Eliab Byamukama Mpora, PhD<sup>1\*</sup>, Hagumimana Frank<sup>2</sup> & Dr. Omweno N. Enock, PhD<sup>1</sup>

<sup>1</sup> Kampala International University P. O.Box 20000. Kampala-Uganda.

<sup>2</sup> Independent University Kigali, P. O. Box 2280 Kigali, Rwanda.

\* Author for Correspondence ORCID ID: <https://orcid.org/0000-0002-7876-1788>; Email: [eliab.byamukama@kiu.ac.ug](mailto:eliab.byamukama@kiu.ac.ug)

Article DOI: <https://doi.org/10.37284/ijfa.2.1.1186>

**Date Published: ABSTRACT**

25 April 2023

**Keywords:**

*Internal control,  
Systems,  
Financial control,  
Institutions,  
and Uganda.*

Internal control systems and the performance of financial institutions have received much attention in recent times owing to the increased recognition accorded to internal control systems as a source of financial performance. Researchers and practitioners have been increasingly interested in striving to understand how these two notions can be harnessed in order to attain a firm's success. The aim of the study was to assess the internal control system and the performance of financial institutions in Uganda. The study was guided by specific objectives, which include establishing the relationship between the internal control system and the performance of financial institutions and finding out the relationship between corporative governance and firm performance. A mixed research design was applied to achieve the set objectives utilising both quantitative and qualitative approaches. Using simple random and purposive sampling techniques, a total of 118 respondents were selected to participate in the study. There is a significant positive correlation between the internal control system and firm performance ( $r = .407$ ;  $p < 0.01$ ), meaning an increased internal control system in Uganda's financial institutions is associated with positive firm performance. There is a significant positive correlation between corporate governance and financial performance ( $r = .649$ ;  $p < 0.01$ ). This implies that as the level of corporate governance improves, the financial performance of the company tends to improve as well. Thus, financial firms in Uganda should endeavour and put in place functional internal control systems if they are to realise better institutional performance.

### APA CITATION

Mpora, E. B., Frank, H. & Enock, O. N. (2023). The Internal Control System and the Performance of Financial Institutions in Uganda *International Journal of Finance and Accounting*, 2(1), 1-8. <https://doi.org/10.37284/ijfa.2.1.1186>.

#### CHICAGO CITATION

Mpora, Eliab Byamukama, Hagumimana Frank and Omweno N. Enock. 2023. "The Internal Control System and the Performance of Financial Institutions in Uganda". *International Journal of Finance and Accounting* 2 (1), 1-8. <https://doi.org/10.37284/ijfa.2.1.1186>.

#### HARVARD CITATION

Mpora, E. B., Frank, H. & Enock, O. N. (2023) "The Internal Control System and the Performance of Financial Institutions in Uganda" *International Journal of Finance and Accounting*, 2(1), pp. 1-8. doi: 10.37284/ijfa.2.1.1186

#### IEEE CITATION

E. B. Mpora, H. Frank & O. N. Enock, "The Internal Control System and the Performance of Financial Institutions in Uganda", *IJFA*, vol. 2, no. 1, pp. 1-8, Apr. 2023.

#### MLA CITATION

Mpora, Eliab Byamukama, Hagumimana Frank & Omweno N. Enock. "The Internal Control System and the Performance of Financial Institutions in Uganda". *International Journal of Finance and Accounting*, Vol. 2, no. 1, Apr. 2023, pp. 1-8, doi:10.37284/ijfa.2.1.1186

## INTRODUCTION

Internal control systems, corporate governance, and the performance of financial institutions are instrumental in having strong internal control systems (Rehman, 2021). The internal control system will be taken to represent all the approved policies and procedures used by the management in order to achieve effective management of the business. The control system includes internal control and internal procedures (Vitolla et al., 2020). The novelty of this study is that a strong internal control system is essential for risk mitigation, assuring financial integrity, and protecting an organisation's assets. It contributes to the organisation's overall effectiveness and performance by fostering accountability, openness, and obedience to laws and regulations.

The term "corporate governance" refers to the system by which business corporations are directed and controlled (Vitolla et al., 2020). The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs (Ramesh & Murali, 2020). Therefore, maintaining the faith and trust of customers, shareholders, and other stakeholders, as well as fostering a company's long-term viability and prosperity depend on effective corporate governance. It aids in reducing conflicts of interest,

encouraging accountability, transparency, and ethical management, and making sure that the interests of everyone involved are taken into consideration during the company's decision-making processes.

Firm performance has now become a catchphrase for and about profitability, insolvency, and others while insinuating organisational effectiveness and efficiency (Kumar, 2021). Recognising that one of the driving forces in businesses is profit realisation, a number of studies have been conducted to understand how such firms can be kept aloft even when the business landscape appears to be turbulent (Alcazar, 2020; King, 2021; Palm & Siczko, 2021). Well-managed firms come along with several benefits; they inhibit staff turnover, boost corporate social responsibility, and the like (Anshari et al., 2022). Although the status of firm performance is one of the critical issues in the service industry, there is a dearth of studies on the internal control system and firm performance (Saha et al., 2021). Most of the research in this area has been in the production and manufacturing industry (He et al., 2019; Li et al., 2020; Ibama & David, 2021; Kabra et al., 2020).

The performance of some of the financial institutions in Uganda in recent times has been evidenced by poor performance: many financial institutions are facing liquidity challenges; others have ceased to operate, and some have closed. Financial institution losses cost more than 10 per

cent of the gross domestic product (GDP) in countries where they occurred (Ali et al., 2020). Theories are supposed to inform practice in a more parsimonious way. Therefore, considering the contributions of financial institutions to the states' economies, coupled with an inadequate repository of literature, if a study of financial institutions' performance is not done in Uganda, the scholarly and practical worlds might not know with scientific precision why such firms continue to perform poorly. In reference to (Ali et al., 2020), the poor performance of financial firms is bound to rise if an investigation is not done and how it is intended to clarify the categorisation of the internal and external stakeholders as in line with (Johnson et al., 2021).

### Objective

To establish the relationship between the internal control system and the performance of financial institutions in Uganda.

### Hypothesis

*H<sub>1</sub>. There is a positive and significant relationship between internal control systems, corporate governance and the performance of financial institutions in Uganda*

## MATERIALS AND METHODS

### Data analysis

There are two broad approaches to research, i.e. qualitative and quantitative (Benson and Ayiga, 2022). Turyasingura et al. (2022) argue that the two approaches can be combined to study a particular phenomenon which helps to get more detailed information about the study due to the involvement of key informants accelerated the use of funnels data collection and analysis, which involves both the qualitative and quantitative approaches in many stages during the research process (Ali et al., 2020). This study adopted a mixed method approach (Turyasingura, 2022) on the basis that it raises respondents' understanding, fortifies confidence in findings, allows marginalised groups in society to

be heard and eases the process of sampling, data collection and analysis. The study adopted a cross-sectional survey design from the quantitative orientation (Johnson et al., 2021) as a mixed approach. Using a cross-sectional research design, we studied the financial institutions in Uganda. This study adopted a phenomenological research design that interrogates a social reality from the point of view of the research participants who actually report the experience of a particular phenomenon and the way they sense it (Johnson et al., 2021). In addition, interview and questionnaire methods of data collection were employed in the study.

The interview method was important for the study because it acquired specific data and information from respondents believed to be more knowledgeable and skilled with the content. The use of the survey questionnaire was of great importance for the study because of its advantages. For example, according to Sugiura, Wilesm, and Pope (2017), survey questionnaires produce rich quantitative and qualitative data about divergent individual experiences in respect of the issue in question with the data being collected at a specific time and period (Cohen, 2007). Behr, Kaczmirek, Bandilla, and Braun (2012) cited other advantages such as allowing for similar probe questions to be administered to each respondent and providing the interviewees with time in which to consider their answers without researcher manipulation.

The study constituted both open-ended and closed-ended questions to ease data collection in an area in line with the self-administered survey questionnaires to solicit the respondents' views. Closed-ended questions with both solicited and unsolicited responses were designed to quantitatively draw out the relationship between the internal control system and the performance of financial institutions in Uganda. A more diversified and extensive dataset can be produced by including questions that are both open and closed-ended in the data-collecting process. This allows for a thorough examination of respondents' opinions as well as

standardised data gathering and effective data analysis. A deeper grasp of the research issue can be gained thanks to this mixed-methods approach, which can also increase the validity and dependability of research findings. SPSS was used to analyse data.

### Study Population and Sample Size

The population was 850 and using the Yamene formula. Hence, the sample size of 118 respondents from financial institutions in Uganda was selected to participate in the study. To get the sample size, the Yamane formula (1967) was used. Due to the enormous large population size, the sample size of the population was determined as follows;

$$n = \frac{N}{1 + Ne^2}$$

Where: n = Sample size, N= Population size, 1 = constant, e = Level of precession 10%

Therefore N = 850, 1 = constant, e = 10%

$$n = \frac{850}{1 + 850(0.10^2)} = 89$$

Therefore, 89 respondents were selected under a simple random sampling method. Purposive sampling was further used to select key informants.

**Table 1: Study population and sample size**

Category of Respondents	Population	Sample	Sampling Method
Financial Institutions	850	89	Simple Random Sampling
Key informants			Purposive Sampling
a) Commercial banks	23	23	
b) Credit Institutions	3	3	
c) MDIs	3	3	
Total		118	Respondents

Source: Primary Data, 2013.

## RESULTS AND DISCUSSION

### Demographic Characteristics

From *Table 2*, it is clear that 36% of respondents were above 30 – 39 years of age. This indicates that the majority of the respondents were mature enough to respond to the questions. Regarding the gender

distribution of the respondents, 58% and 42% of respondents represented males and females, respectively, as indicated in *Table 2*. This shows that financial institutions employ more males than females, a trend that is common in other organisations.

**Table 2: Demographic characteristics of respondents**

Variable	Frequency	Per cent
Gender	Female	42
	Male	58
	<b>Total</b>	<b>118</b>
Age (Years)	20-29	10
	30-39	36
	40-49	28
	50-59	25
	> 60	1
	<b>Total</b>	<b>118</b>

Source: Primary Data, 2013.

**Table 3: Correlation between Internal Control System and Firm Performance**

	Mean	Std. Deviation	1	2
Internal control system	3.8099	.46172	1	
Firm Performance	3.8772	.44003	.407**	1

*N = 349; \*\*. Correlation is significant at the 0.01 level (2-tailed).*

**Source:** Primary Data, 2013.

It is evident from *Table 3* that there is a significant positive correlation between the internal control system and firm performance ( $r = .407$ ;  $p < 0.01$ ).

This finding means that an increased internal control system in Uganda's financial institutions is associated with positive firm performance.

**Table 4: Correlation between Corporate governance and Firm performance**

			Corporate governance	Firm performance
Spearman's rho	Corporate governance	Correlation Coefficient	1.000	.649**
		Sig. (2-tailed)	.	.000
		N	118	118
	Firm performance	Correlation Coefficient	.649**	1.000
		Sig. (2-tailed)	.000	.
		N	118	118

*N = 349; \*\*. Correlation is significant at the 0.01 level (2-tailed).*

**Source:** Primary Data, 2013.

Another correlation objective sought to determine the relationship between corporate governance and the performance of financial institutions in Uganda. It is evident from *Table 4* that there is a significant positive correlation between corporate governance and financial performance ( $r = .649$ ;  $p < 0.01$ ). This finding means that increased corporate governance in a Ugandan financial institution is associated with positive firm performance.

### Performance of Financial Institutions

The key informants reported that although the monetisation of the economy had increased, the levels of increment were still low and reflected the fact that financial deepening had continued to face serious challenges because bank services were not being extended to rural areas. It was further reported that while the economy welcomes increased use of technology and the growth in financial innovations, there is a challenge in terms of preparing clients to accept the use of ATMs since they had lost confidence in financial institutions after having

witnessed a myriad of fraudulent acts where huge sums of clients' monies had been swindled.

### DISCUSSION

The relationship between the internal control system and the performance of financial institutions in Uganda. The results of the study confirmed a significant relationship between internal control systems and the performance of financial institutions in Uganda indicating that a positive internal control system was necessary for the performance of financial institutions in Uganda. This is supported by (Li et al., 2020), who argued that internal control systems such as information sharing and risk management were important factors that positively affected the performance of financial institutions in Uganda. It was also found that there was a positive relationship between corporate governance and Firm Performance in Uganda. This implies that greater corporate governance practices may be linked to greater financial success, according to a significant positive

association between corporate governance and financial performance. This could imply that businesses employing stronger corporate governance systems—including efficient board monitoring, open financial reporting, and solid internal controls—are more likely to outperform their competitors in terms of financial performance. A firm with solid corporate governance procedures may be better able to draw in investors, manage risks, make wise strategic decisions, and build long-term shareholder value, all of which may boost financial performance. It's crucial to keep in mind that correlation is not proof of causation in all cases, while additional factors may also have an impact on financial performance. Therefore, further research and analysis would be needed to establish a causal relationship between corporate governance and financial performance.

## CONCLUSIONS

The results of the study together with the extant literature confirmed that there is a significant relationship between internal control systems and the performance of financial institutions in Uganda. It can be concluded that for the effective performance of financial institutions in Uganda, robust internal control systems must be put in place.

## Recommendations

This study therefore recommends that financial firms in Uganda should endeavour and put in place functional internal control systems if they are to realise better institutional performance.

There is a need to review and update internal control policies and procedures: Conduct a comprehensive review of the existing internal control policies and procedures in place within the financial institutions in Uganda. Identify any gaps or weaknesses and update them to align with industry best practices and regulatory requirements. This may include areas such as risk assessment, authorisation and approval processes, segregation of duties, accounting and financial reporting, and internal audit procedures.

There is a need to strengthen the makeup, organisation, and independence of the company's board of directors to strengthen corporate governance procedures inside financial institutions. Ascertain that the board is in charge of effective oversight, that roles and duties are specified, and that systems are in place to promote responsibility as well as openness in decision-making.

Encouraging a culture of responsibility, openness, and moral conduct among Uganda's financial institutions. Make sure that staff members are held responsible for their activities, and have a grasp of the value of oversight and ethical behaviour, and both. Regular communication, teaching, and putting in place a system of rewards and recognition that encourages good behaviour are all ways to accomplish this.

## Ethics Approval Consent Participate

The study was conducted using some ethical values. Each respondent to the study was first informed about the purpose and objective of the study and the questionnaires to be administered. After explaining the objective of the study, respondents were assured of anonymity and confidentiality before being administered the questionnaire because the information is to be kept confidential and is used for academic purposes only.

## ACKNOWLEDGMENTS

We thank the Almighty God for protecting us and sincerely appreciate the tireless support and guidance of our supervisors, Dr. Stanley Kinyata and Dr. Kayongo Isaac in ensuring that this thesis is completed successfully and that quality assurance is observed.

Many thanks go to my wife, Janet Nshaho and her family. Special thanks go to Dr. Tom our statistician. My parents, Mr. Kasirabo Elasto, Dr. Enos Mpora and my Mothers, Yunia Nakabugo and Petwa Mpora have been a great source of strength and encouragement in the completion of this thesis.

### Authors' Contributions

The study findings might be of importance to banking and financial policymakers, which may be made aware of the contributions of internal control systems and the role of corporate governance in influencing the performance of financial systems in Uganda. Therefore, these findings might help policymakers in the design of proper strategies for processes like internal control systems that, if properly implemented, could lead to a reduction in cases like those of fraud. This can be done through the formulation of good personnel and recruitment policies: This is where employees are employed not based on sentiment but on personal knowledge. Guarantees and references from people of high integrity will go a long way toward preventing the recruitment of kleptomaniacs, greedy individuals, and ungodly individuals in the banking sector. Adequate internal control systems, which have been earlier mentioned and defined as all types of checks and balances, both operational and financial, should be employed by the management of every bank to ensure that the bank's assets are safeguarded, of which cash is one. This would go a long way in curbing fraud in banks.

This study's findings also load a new corpus of literature on internal control systems, corporate governance, and the performance of financial institutions in Uganda. By doing this, investigation fills the former glaring gaps in the intellectual world of these variables (internal control systems, corporate governance, and performance of financial institutions).

### REFERENCES

- Alcazar, R. (2020). *Management Accounting Systems for Small Business's Competitive Advantage*. Walden University.
- Ali, O., Ally, M., & Dwivedi, Y. (2020). The state of play of blockchain technology in the financial services sector: A systematic literature review. *International Journal of Information Management*, 54, 102199.
- Anshari, M., Syafrudin, M., Fitriyani, N. L., & Razzaq, A. (2022). Ethical Responsibility and Sustainability (ERS) Development in a Metaverse Business Model. *Sustainability*, 14(23), 15805.
- Benson, T., & Ayiga, N. (2022). Classifying the Involvement of Men and Women in Climate Smart Agricultural Practices in Kayonza Sub-county, Kanungu District, Uganda. <https://doi.org/10.11648/j.ijees.20220701.12>.
- He, L., Liu, R., Zhong, Z., Wang, D., & Xia, Y. (2019). Can green financial development promote renewable energy investment efficiency? A consideration of bank credit. *Renewable Energy*, 143, 974–984.
- Ibama, k. C. K., & david, k. D. (2021). Internal audit function and financial performance of telecommunication firms in Nigeria. *Nigerian Journal of Management Sciences Vol*, 22(1).
- Johnson, O., Constance, T., & Chrysostom, O. (2021). Analysis of Stakeholders Involvement in the Implementation of the MA Literature Curriculum at Kabale University Using E-Learning Approach. *East African Journal of Education Studies*, 3(1), 199–210.
- Kabra, N., Bhattacharya, P., Tanwar, S., & Tyagi, S. (2020). MudraChain: Blockchain-based framework for automated cheque clearance in financial institutions. *Future Generation Computer Systems*, 102, 574–587.
- King, A. J. (2021). An Existential Phenomenological Study of Firms Survival in Economically Depressed Areas: A Dynamic Capabilities Perspective. Columbia International University.
- Kumar, J. (2021). Importance and Legal Framework of Corporate Governance. *Issue 1 Int'l JL Mgmt. & Human.*, 4, 1305.

- Li, Y., Li, X., Xiang, E., & Djajadikerta, H. G. (2020). Financial distress, internal control, and earnings management: Evidence from China. *Journal of Contemporary Accounting & Economics*, 16(3), 100210.
- Palm, R., & Sieczko, M. (2021). Transitioning Towards the Regenerative Business Phase: An exploratory study of SMEs from the perspective of sustainability consultants.
- Ramesh, G., & Murali, R. S. (2020). Accounting Reforms and Urban Governance: Necessary Conditions. In *Urban Infrastructure and Governance* (pp. 227–246). Routledge India.
- Rehman, A. (2021). Can Sustainable Corporate Governance Enhance Internal Audit Function? Evidence from Omani Public Listed Companies. *Journal of Risk and Financial Management*, 14(11), 537.
- Saha, P. K., Akhter, S., & Hassan, A. (2021). Framing corporate social responsibility to achieve sustainability in urban industrialisation: case of Bangladesh ready-made garments (RMG). *Sustainability*, 13(13), 6988.
- Turyasingura, B., Alex, S., Hirwa, H., Mohammed, F. S., Ruhijga, T. M. & Ayiga, N. (2022). Wetland Conservation and Management Practices in Rubanda District, South-Western Uganda. *East African Journal of Environment and Natural Resources*, 5(1), 289-302. <https://doi.org/10.37284/eajenr.5.1.828>
- Turyasingura, B., Ayiga, N., & Benzougagh, B. (2022). Re-thinking on land degradation and its impacts on livelihoods of the farmers in Kanungu District, Uganda. <https://doi.org/10.21203/rs.3.rs-1966742/v1>
- Vitolla, F., Raimo, N., Rubino, M., & Garzoni, A. (2020). The determinants of integrated reporting quality in financial institutions. *Corporate Governance: The International Journal of Business in Society*.