**INTERNAL CONTROLSYSTEMAND FINANCIALPERFORMANCEOF COMMERCIAL BANKS IN SOUTH SUDAN: A CASE STUDY OF**

**EQUITY BANK-MUNUKI BRANCH**

**BY**

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**OF SCIENCE IN ACCOUNTING AND FINANCE**

**OF NKUMBA UNIVERSITY**

**FEBRUARY, 2021**

# DECLARATION

I declare that this dissertation is my original work and has not been submitted for an award of a degree in any other University.

Signature………………………………………….………

**Moini Moses Sube**

Date………………………….…………………..………….

# APPROVAL

This dissertation has been submitted for examination with my approval as the candidate’s supervisor.

Signature……………………………………………………..………………

**Nabutsale I. Ojambo**

Date……………………………………………………..………………………

# DEDICATION

I dedicate this dissertation/research book to my dear parents Mr. & Mrs. Mikaya and Jenifer Yepi who sewed the first seed of civilization into me along with the formal education. My wife Mrs. Jane Tabu and my sons Eric, Bryan, Vincent & daughter Mercy Innocent.

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# LIST OF ABBREVIATIONS

**ACCA** - Association of Chartered Certified Accountants

**ANOVA** -Analysis of Variances

**COBIT** - Control Objectives for Information and Related Technology

**CoCo** -Criteria of Control

**COSO**  - Committee of Sponsoring Organizations

**EB** -Equity Bank

**GAAP**  - Generally Accepted Accounting Principles

**GFA** - Granting Financial Authority

**IFRS** - International Financial Reporting Standards

**IIARF** - Institute of Internal Auditors Research Foundation

**ISA** - International Standards on Auditing

**MVA** - Market Value Added

**R&D**  - Research and Development

**ROA**  - Return on Assets

**ROE** - Return on Equity

**ROI**  - Return on Investment

**ROS** - Return on Sales

**SAC** - Systems Auditability and Control

**SSP** - South Sudan Pounding

# ABSTRACT

The study set out to examine internal control systems and financial performance of commercial banks in South Sudan, using a case study of Equity Bank-Munuki. The study was based on three objectives: To establish whether Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance. To establish whether all financial transactions are properly authorized to avoid misallocation of funds and to examine whether internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance.

The study used a target population of 85 selected staffs of Equity Bank Munuki and a sample of 70 respondents was selected using Neumann’s formula (2000). Out of the 70 questionnaires that were distributed, 67 questionnaires were fully completed and returned to the researcher and therefore considered for data analysis. A descriptive research design was employed and both quantitative and qualitative approaches of data collection were used. Data were analyzed using descriptive statistics, Pearson correlation, coefficient, regression analysis, and analysis of variance (ANOVA); where the statistics proved that r2=0894 significance level was found and the hypothesis testing proved that there is a strong and positive relationship between internal control systems and financial performance of Equity Bank Munuki.

The study findings revealed that Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance, all financial transactions are properly authorized to avoid misallocation of funds and internal controls cover both the financial and non-financial resources to ensure effective financial performance.

The study concluded that the Bank has accounting and procedures manual and complies with all applicable financial laws and regulations, the Bank has an effective system prevents and detects the misuse of funds and Internal control systems have helped the Bank management to safeguard the resources, produce reliable financial reports, and comply with laws and regulations.

The study recommends that management of the Equity Bank-Munuki should put effective and efficient security network in place to reduce frequent theft, threat to life and property. The study also recommends proper checks and balances in all financial transactions. Also the study recommends that management of the bank should organize regular training for staff on control mechanism.

# CHAPTER ONE

# INTRODUCTION

# Background to the Study

The study is about internal control system and financial performance of commercial banks in South Sudan using Equity Bank Munuki Branch as a case study.

The study is significant because internal control system is a vital role in every commercial bank to achieve their management objectives. The main objective of internal control system for Equity Bank Munuki Branch is to continuously track the accordance of all banking practices and operations with international auditing standards, banking laws, guidelines and rules to solve problems that may arise where required.

The sample study is significant because Equity Bank Limited - South Sudan started its operations in May 2009, as part of the larger Equity Bank Group. The strong financial base of the Subsidiary is underpinned by Equity Bank Group’s massive capital base and regional spread. The establishment of the Subsidiary was in pursuit of Equity Bank’s Pan African regional expansion strategy in line with the Bank’s vision to be the champion of social economic transformation of the people of Africa.

The subsidiary is registered as a commercial bank through the Central Bank of South Sudan. The Bank has its Head Office located in Juba, with 10 other branches located in major towns and still growing with the aim of ensuring that the people of South Sudan can access our services conveniently Since starting operations in 2009, the bank has experienced tremendous growth with a market share of 48% making it the biggest bank by customer numbers.

The traditional accounting professional definition of internal control hinged on financial reporting and compliance aspect of control, however COSO, (2004:17) describes internal control system as a process involving board of directors, management, and other personnel created as a means of ensuring that the organization’s objectives can be achieved. The objectives are categorized as; effectiveness and efficiency of operations, reliability of financial reporting, compliance with the relevant laws and regulations.

The 2013 Committee of Sponsoring Organizations (COSO) Framework defines Internal Control system as a process, affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. The control environment sets the tone of an organization, influencing the control consciousness of its employees. The COSO framework identifies five main elements of a control system against which the review should take place. These include Control environment, Risk assessment, control activities, information and communication and monitoring. Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization’s transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources. Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Mwindi, 2008). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. “The likelihood of achievement is affected by limitations inherent in all systems of internal control” (Hayes et al., 2005).

ISA-400 also defined internal control system, as all the policies and procedures (internal control) adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as practicable, the orderly and efficient conduct its business, including of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal control system extends beyond those matters which relate directly to the functions of the accounting system and comprises; the control environment and control procedure.

An internal control system which is created by management and implemented by management and employees is a process which is designed to ensure reasonable assurance to achieve specified objectives. In 2002, Committee of Sponsoring Organizations of tread way commission (COSO) developed a model for appraising internal controls. This model has been accepted as the generally accepted framework for internal control. The Bank also maintains a system of disclosure controls and measures to ensure that information required to be revealed by the bank is recorded, processed, summarized and reported within the required time periods and accumulated and communicated to the bank’s management to allow timely decisions regarding disclosure. Although these procedures are intended to identify and manage risks that could undesirably impact the achievement of the bank’s business objectives, they do not provide unconditional assurance against material misstatement, errors, losses or fraud (Dinesh Kumar, 2012, p. 58).

Internal control system is important for the smooth running of organizational operations. There are financial and non-financial assets that need to be efficiently and effectively controlled and monitored so that the organization can remain profitable and evergreen (Olufunmilayo and Hannah, 2018). “Internal Controls are processes designed and caused by those charged with governance, management, and other personnel to provide rational assurance about the entity goal achievement. About reliability of the financial reporting, effectiveness and efficiency of operations and compliance with appropriate laws and regulations”(Kinyua, Gakure, Gekara and Orwa, 2015).

Financial performance is a measure of company’s policies and operations in monetary terms. It is a general measure of a firm’s overall financial health over a given period and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many ways to Measure Company’s financial performance (Kinyua, Gakure, Gekara, and Orwa, 2015). In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization. Since the perception of these outcomes is contextual, the measures used to represent performance are selected based upon the circumstances of the organization(s) being observed (Carton, 2014).

Financial performance is a measure of company's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to Measure Company's financial performance. This may be reflected in the firm's return on investment (ROI), return on assets (ROA), value added, among others and is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues (Mishkin, 2007).

Good financial performance in a firm can be achieved by eradicating waste in benefits services processes and systems. The “critical success factor” for a firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm's financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions (Davies, 2005).

Financial performance is a complete evaluation of a company’s overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability. It is measured through various business-related formulas that allow users to calculate exact details regarding a company’s potential effectiveness. For internal users, financial performance is examined to determine their respective companies’ well-being and standing among other benchmarks. For external users, financial performance is analyzed to dictate potential investment opportunities and to determine if a company is worth their while.

Organizational financial performance is measured in terms of customer satisfaction, profitability, market share through reduced customer complaints (Kloot, 2019). In order to be able to perform organizations should critically look at customers and all stakeholders in business and know how best they are satisfying their needs. According to (Kloot, 2019) adds that organizations should continuously improve their services through assets accumulation, create value, improved quality services and flexibility. Internal control system is intervened with organization’s operating activities and it is most effective when controls are built into the organization’s infrastructure, becoming organization’s part of the very essence of the organizations success in terms of continued improvement on performance standards as part of the competitive advantage of the organization.

According to the Equity Bank Munuki Branch Accounting and Finance Manual (2019); Internal Control Systems is to be secured through implementing the following;

1. To ensure comply with accounting regulations and procedures.
2. To ensure that all financial transactions are properly authorized to avoid misallocation of funds.
3. Internal controls cover both the financial and non-financial resources of an entity’s operations.
4. To use financial risk management strategies.

This study examined the extent to which the above first three (3) objectives have been achieved by Equity Bank Munuki Branch.

# Problem Statement

In spite of the above stated objectives that Equity Bank Munuki Branch is required to achieve, there are incidences of flaws arising out of non- compliance to accounting regulations and procedures. The Bank continues to face difficulties in financial performance. A number of complaints have been raised as shown below:

Managing Director-Equity Bank South Sudan (2018) revealed that the Bank still facing quiet a number of internal control challenges that have effected its financial performance. He indicated that the bank is struggling with non-compliance of financial and accounting policies and regulations by accounts staff in handling financial transactions, liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of bank resources. It is for this reason that this study sought to investigate the effects of internal controls on financial performance in Equity Bank Munuki Branch.

The performance reports for the financial years 2018/19 and 2019/20 revealed some of the challenges experienced in regard to internal controls include; struggles with liquidity problems, financial reports are not made accurate and timely, accountability for financial resources is wanting, frauds and misuses of institutional resources have been unearthed and a number of decisions made have not yielded the expected results. Therefore, this study intended to assess the internal control systems and financial performance of Equity Bank – Munuki in South Sudan.

# Purpose of the Study

The purpose of the study was to examine the role of internal controls on financial performance in commercial banks in South Sudan, focusing on a case of Equity Bank – Munuki.

# Objectives of the Study

The following are the objectives that guided the study:

1. To establish whether Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance.
2. To establish whether all financial transactions are properly authorized to avoid misallocation of funds at Equity Bank - Munuki.
3. To examine whether internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance.

# Research Questions

The following are the research questions that guided the study:

1. How does Equity Bank Munuki ensure that accounting regulations and procedures are complied with to enhance financial performance?
2. How does Equity Bank Munuki ensure that all financial transactions are properly authorized to avoid misallocation of funds?
3. How does an internal control cover both the financial and non-financial aspects of Equity Bank-Munuki to ensure effective financial performance?

# Research Hypothesis

The following were the hypotheses of the study:

**H0:** Internal Controls have not significantly enhanced financial performance in Equity Bank-Munuki.

**H1:** Internal Controls have significantly enhanced financial performance in Equity Bank-Munuki.

# Scope of the Study

# Content Scope

The study specifically focused on accounting regulations and procedures, financial transactions are properly authorized to avoid misallocation of funds, and internal control cover both the financial and non-financial resources of Equity Bank Munuki Branch to ensure effective financial performance.

# Geographical scope

Equity Bank Munuki Branch is located at Market Street, Munuki, South Sudan.

# Time Scope

The study is restricted to a period of 3 years starting from financial year 2018 – 2020. This period is selected because it is within that period that the Equity Bank - Munuki Branch experienced high cases of incompliance of accounting regulations and procedures, improper authorization of financial transactions and unlawful physical access to assets and financial records (Equity Finance Committee, 2018).

# Significance of the study

This study was significant to the following stakeholders:

***Equity Bank Management***

The study would generally help the Equity Bank Management as a whole to understand and discover the importance and impacts of an effective internal control system and financial performance in the achievement of company goals and objectives.

***Finance officers/Staff in Equity Bank***

The Bank under the study would use the findings to redress the problems affecting the internal control systems and financial performance on their strong areas and improve on their weak areas.

***Policy makers***: The government policy makers and other stakeholders would use the findings of the study to formulate and implement proper policies regulating internal control systems and financial performance in commercial bank.

***Academics and other researchers***: Future researchers would use the findings of this study in getting related literature regarding this subject. The study enriched the researchers' experience in research management and academic career.

# Setting of the Study

Equity Bank Limited - South Sudan started its operations in May 2009, as part of the larger Equity Bank Group. The strong financial base of the Subsidiary is underpinned by Equity Bank Group’s massive capital base and regional spread. The establishment of the Subsidiary was in pursuit of Equity Bank’s Pan African regional expansion strategy in line with the Bank’s vision to be the champion of social economic transformation of the people of Africa.

The Subsidiary is registered as a commercial bank through the Central Bank of South Sudan. The Bank has its Head Office located in Juba, with 10 other branches located in major towns and still growing with the aim of ensuring that the people of South Sudan can access our services conveniently Since starting operations in 2009, the bank has experienced tremendous growth with a market share of 48 % making it the biggest bank by customer numbers.

South Sudan is an emerging market following the attainment of independence on 9th July 2011. The Bank has endeavored to integrate its growth strategy to the government development strategy by availing modern banking products and financial infrastructure.

Philosophy of Equity Bank Limited - South Sudan;

The Bank exists to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities.

Purpose of Equity Bank Limited - South Sudan;

The Bank exists to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities.

Vision of Equity Bank Limited - South Sudan;

To be the champion of the socio-economic prosperity of the people of Africa.

Mission;

The Bank offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders.

Positioning Statement;

Equity provides Inclusive Financial Services that transform livelihoods, give dignity and expand opportunities.

Bank Core Values;

The Bank is guided by and strives to uphold the following core values in all the activities Bank undertake. These include: Integrity, Teamwork, Respect and Dignity for the Customer, Unity of Purpose, Effective Corporate Governance, Creativity and Innovation and Professionalism.

# Arrangement of the dissertation

The research report contained nine chapters.

Chapter one is the introduction. This contains the background, problem statement, purpose, objectives, research questions, research hypothesis, scope, significance, setting of the study and the arrangement of the report.

Chapter two is study literature. This contains the introduction, literature survey, theoretical review, literature review and conceptual framework.

Chapter three explores the methodologies employed in the study.

Chapter four presents findings on the demographic characteristics or bio-data of the respondents involved in the study.

Chapter presents five findings on whether Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance.

Chapter six presents findings on whether all financial transactions are properly authorized to avoid misallocation of funds at Equity Bank - Munuki.

Chapter seven presents findings on whether internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance.

Chapter eight presents ways and means of improving internal control system and financial performance in commercial banks.

Chapter nine reflects the summary, conclusions and recommendations.

Lastly, areas for the further research, References and appendices

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter presents what other scholars or researchers have written in relation to the topic under study. The chapter also identifies the gaps that have not been filled by other researchers for purposes of addressing them during data collection. The section of this chapter also highlights the theories and models used to improve internal control system and financial performance.

# Literature Survey

A survey of literature on internal control and financial performance in commercial banks is carried out by different researchers in regard to different areas of research. However no single research has come out to go deep into internal control and financial performance in commercial banks operations in South Sudan.

Kinyi (2016) examined the effect of internal control systems on financial management of companies quoted in the South Sudan securities exchange. The findings of the study, according to the author,internal control systems especially risk management, corporate governance, control activity, internal control environment and internal audit function are significant areas management of companies should give great attention to in order to improve their financial performance. Therefore, his study did not mention how companies are complied with accounting regulations and procedures to ensure financial performance, thus the current study bridged this gap.

Ahmed and Hamad (2014) analyzed the effect of internal control systems on the organizational performance of Microfinance Institutions in South Sudan. Internal control system was characterized by control environment, risk assessment process, information system and control activities while financial performance was characterized by cost per unit, goal attainment and profitability or surplus. The regression results also show that internal control system helps increase financial performance of microfinance institutions. Based on the findings and conclusions of the study, the following recommendations were made; internal control system has been found to have a statistically positive effect on performance of Microfinance Institutions hence there is need for the Microfinance Institutions to improve on their internal control system. Despite the fact that the study produced meaningful results it was subject to some limitations which provide avenues for further research.

Kiabel (2007) carried out a study on accounting control practices and financial performance of private-owned companies in South Sudan. The study found a weak significant relationship between accounting control practices and financial performance of private-owned companies. This finding, according to the author was largely due to the inadequacy and poor implementation of accounting control practices in most of the firms surveyed. The study, therefore, concluded that accounting control practices contributed very little to financial performance of private-owned companies. In his study did not highlight how all financial transactions are properly authorized to avoid misallocation of funds. Therefore, the current filled the gap.

Guo (2014) investigated the effect of internal controls on the financial performance of manufacturing firms in South Sudan. The study found out that manufacturing firms that had invested on effective internal control systems had improved financial performance as compared to those manufacturing firms that had a weak internal control system. In her study didn’t explain how available internal controls cover both the financial and non-financial aspects to ensure effective financial performance. Therefore, the current study bridged the gap.

# Literature Review

This segment highlights literature related to internal control systems and financial performance in the commercial banks outside the South Sudanese context. Financial performance aspects have been discussed based on the theories and practical recommendations outlined in other research works done elsewhere outside South Sudan.

# Theoretical Review

The study was grounded on the Agency Theory, Prudential Theory, Attribution Theory and the Reliability Theory.

**The Agency Theory**

The agency theory holds that a firm is made up of owners of the resource (principals) and the managements (agents) (Jensen and Meckling, 1976). The agents of the firm have more information than the principals which creates an information asymmetry which affects the ability of the firm’s owners to monitor whether there interests are being protected by the agents (Jensen andMeckling, 1976).

In order to ensure harmonization of the interests of the principal and their agents the theory posits that a comprehensive contract is necessary to ensure that the interests of the principals are met. The relationship between the agent and principal is further strengthened by employing experts and systems such as audit and control environment (Jussi and Petri, 2014). Further, the theory recognizes that any incomplete information about the relationship, interests or work performance of the agent described could lead to selection problem. Adverse selection and moral hazard impact on the output of the agent in two ways; not possessing the requisite knowledge about what should be done and not doing exactly what the agent is appointed to do respectively. The agency theory, therefore, works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Jensen and Meckling, 1976).This theory was essential to the study since the internal control systems is one the mechanisms employed to ensure that no agency problem exists within the firm. The internal control system further helps to reduce information asymmetry within the firm.

# The Prudential Theory

This theory was developed by an American economist known as Author B Laffer as cited in Sambo (2018). According to him, every organization, be it profit making or non-profit making must learn to handle and spend money wisely. He (Author B. Laffer) believes that if money is spent prudently, it will lead to the achievement of the organizational goal maximally. This therefore implies that when finance or funds are handled wisely or carefully, it will go a long way in helping the organization to eliminate wants, waste and reduce costs in terms of time, energy and money. Hence the commercial bank system in course of managing funds must know how to handle and spend money on bank facilities and programmes in order to achieve goals maximally.

**Reliability Theory**

Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilov and Gavrilova, 2011). The theory has been used as a model by insurance companies and banks in computing profitable rates to charge their customers. The theory stipulates that internal control systems are primarily set up for assessment and control of risks. The theory further argues that weak internal control systems result in more substantive work and hence greater cost (Kinney, 2010).

According to Gavrilov and Gavrilova (2011), the determination of the "weakness" of any internal control system is primarily judgmental. Upon the formulation of the process and system reliability estimates, comparison with financial data from the organization’s past performances may provide a more solid basis for judgment of the impact of an internal control system on the firm’s income risk. Messier Jr. and Austen (2010) state that one of the primary advantages of the reliability theory is its close relationship to the needs of an organization regarding understanding the internal control system and control risk assessment. The reliability theory is based on the notion that an implemented system should be able to meet its expected function. The reliability theory is relevant to this study based on the second objective of the study.

**Attribution Theory**

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. According to Schroth and Shah (2010), studies using attribution theory examine the use of information in the social environment to explain events and behaviors. Reffett (2017) asserts that when evaluators believe comparable persons would have acted differently in a given circumstance, they (evaluators) tend to attribute responsibility for an outcome to the person. According to Wilks and Zimbelman (2014), the first case refers to internal or dispositional attributions while the second one refers to external or situational attributions.

The auditor’s accountability for detecting fraud is extended by Reffett’s (2017) study which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they had identified the fraud occurrence as a fraud risk. The result of Reffett’s study shows an increase in auditors’ liability when an audit fails after the auditors had identified the perpetrated fraud as a fraud risk and performed procedures to investigate the identified fraud risk.

Attribution theory thus advocates for auditors to report on the effectiveness of firms’ internal control. Auditors are therefore expected to gain a better understanding of the internal controls in place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors’ reliance and possibly scaling back of other substantive audit procedures for the required performance.

The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors, being the “public watchdogs” are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2017). Despite growth in technology that has changed the internal control systems structure there will always be a need for a person to manage these systems. As such it’s upon such authority figures that have to say, managers and the board of directors who should ensure that all the relevant regulatory and compliance issues are adhered with. In reference to the study this theory seeks auditors to be in the forefront of reporting fraud when it occurs.

# Models on Internal Control System

The following are models that guided the study;

**COSO Model**

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission **(COSO)** developed a COSO Framework for evaluating internal controls. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

The COSOmodel defines internal control as a process effected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance of the achievement of objectives in the following categories; operational effectiveness and efficiency; financial reporting reliability and applicable laws and regulations compliance.

The COSO model is depicted as a pyramid, with the control environment forming a base for control activities, risk assessment, and monitoring. Information and communication link the different levels of the pyramid. As the base of the pyramid, the control environment is arguably the most important component because it sets the tone for the organization. Factors of the control environment include employees' integrity, the organization's commitment to competence, management's philosophy and operating style, and the attention and direction of the board of directors and its audit committee. The control environment provides discipline and structure for the other components.

In an effective internal control system, the following five components work to support the achievement of an entity’s mission, strategies and related business objectives:

**Control Environment**: The control environment sets the tone of an organization, influencing the control consciousness of its people. It is a foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility and organizes and develops its people; and the attention and direction provided by the board of directors.

**Risk Assessment**: Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

**Control Activities**: Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Information and Communication**: Pertinent information must be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to allow informed business decision-making and external reporting. Effective communicational so must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

**Monitoring**: Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

These components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organization. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives are communicated through established channels across the company. The entire system of internal control is monitored continuously, and problems are addressed timely.

**Criteria of Control (CoCo) Model**

Some users of the COSO report have found it difficult to read and understand. A model that some believe overcomes this difficulty is found in a report from the Canadian Institute of Chartered Accountants, which was issued in 1995. The report, Guidance on Control, presents a control model referred to as Criteria of Control (CoCo). The CoCo model, which builds on COSO, is thought to be more concrete and user-friendly. CoCo describes internal control as actions that foster the best result for an organization. These actions, which contribute to the achievement of the organization's objectives, center around; Effectiveness and efficiency of operations, Reliability of internal and external reporting and Compliance with applicable laws and regulations and internal policies (Colbert and Bowen, 1996).

CoCo indicates that control comprises those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives.

CoCo model recognizes four interrelated elements of internal control, including purpose, capability, commitment, and monitoring and learning (Colbert and Bowen, 1996). An organization that performs a task is guided by an understanding of the purpose (the objective to be achieved) of the task and supported by capability (information, resources, supplies, and skills). To perform the task well over time, the organization needs a sense of commitment.

In addition to the COSO and CoCo models, two other reports provide internal control models. One is the Institute of Internal Auditors Research Foundation's Systems Auditability and Control (SAC), which was issued in 1991 and revised in 1994. The other is the Information Systems Audit and Control Foundation's COBIT (Control Objectives for Information and Related Technology), which was issued in 1996.

The Institute of Internal Auditors issued SAC to provide guidance to internal auditors on internal controls related to information systems and information technology (IT)(IIARF, 1994). The definition of internal control included in SAC is: *a set of processes, functions, activities, sub-systems, and people who are grouped together or consciously segregated to ensure the effective achievement of objective and goals.*

CobiT focuses primarily on efficiently and effectively monitoring information systems (ISA, 1995). The report emphasizes the role and impact of IT control as it relates to business processes. This control model can be used by management to develop clear policy and good practice for control of IT. The following COBIT definition of internal control was adapted from COSO: *The policies, procedures, practices, and organizational structures are designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.*

These models also stress the concept of reasonable assurance as it relates to internal control. Internal [control systems](https://www.encyclopedia.com/science-and-technology/technology/technology-terms-and-concepts/control-systems) cannot guarantee that an organization will meet its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives will be met (ISA, 1995). The effectiveness of internal controls depends on the competency and dependability of the organization's people. Limitations of internal control include faulty human judgment, misunderstanding of instructions, errors, management override of controls, and collusion. Further, because of cost-benefit considerations, not all possible controls will be implemented. Because of these inherent limitations, internal controls cannot guarantee that an organization will meet its objectives.

**Four Actions Internal Control Model**

Internal control systems make sure that an organization’s financial resources are protected (**COSO, 2002**). They protect these assets from misuse and manage internal risks. Internal controls ensure that an organization’s resources are used for the purposes intended and are utilized effectively and efficiently.

The four components of the model are direct, prevent, detect and correct provide a framework for designing internal controls to minimise the risk of errors, omissions, fraud and theft.

Direct action asset clear guidance and expectations for good financial practice in advance of project activities being implemented. Prevent Actions establish systems and processes that will reduce the opportunity for theft and minimize the risk of losses due to errors or incompetence during project implementation. Detect Actions implement processes and procedures to identify where things have gone wrong after an activity or process has taken place (**COSO, 2002**). Correct Actions update and improve internal control systems as the team learns from experience, correcting errors and providing continuous improvement to reduce risks.

Once the four-action model internal control activities are identified, they are implemented through the life of the company (**COSO, 2002**). The model is revisited on a regular basis to ensure the internal control system remains strong and effective in protecting resources and staff.

The four-action model sets the policies, procedures and practices that must be followed by the company team throughout the life of the project. These internal control actions are shared with the team during project launch, setting a firm foundation of internal control for the company (**COSO, 2002**). As the project moves into implementation, the team uses the direct, prevent, detect and correct actions to ensure project resources are protected and utilized efficiently. Results are monitored and the system continues to evolve and improve building on lessons learned and reinforcing areas of strength.

The manager needs to ensure that all members of the company are familiar with and accountable for the implementation of the internal control policies, procedures and practices. Many of these internal controls are derived from the organization’s Finance Manual.

An effective internal control system also protects staff involved in financial tasks. If an organization and a project have strong internal controls, it helps remove any suspicion of misuse, and temptation or opportunity to misuse resources (**COSO, 2002**).Internal controls are important to pick up errors and omissions in the accounting records, not only to detect fraud or deliberate misuse of resources.  These errors can be addressed with correct actions.

**Complying with Accounting Regulations and Procedures to ensure Financial Performance in Commercial Banks**

Accounting standards are developed to ensure a transparent system in commercial bank. The principles and procedures of accounting are made with a purpose that information can be open to observers. In case of public systems, trusts, and government companies, transparency and openness is very important. Standards put a limit on commercial banks to use ingenious accounting to move items around.

Henri (2018) states that accounting principles can be thought of as a framework in which a commercial bank is expected to operate. However, the framework is somewhat flexible, and a bank's management team can choose specific accounting policies that are advantageous to the financial reporting of the company. Because accounting principles are lenient at times, the specific policies of a bank are very important.

Accounting standards give an insight into the most appropriate information in the most rational way. Commercial banks which follow clear, uniform, and transparent accounting information attract more investors. Observers of such information can make rational decisions about a company. Standards put a limit on commercial bank so that they cannot hide the financial status of a company from observers (Jusoh and Parnell, 2008). Bank owners can access fair information related to accounting data and make better decisions jointly. Potential investors can study open accounting policies to decide if they will invest in a business or not.

Accounting policies are rules and guidelines that are selected by a company for use in preparing and presenting its financial statements. Accounting policies are important, as they set a framework, which all companies follow, and provide comparable and consistent standard financial statements across years and relative to other companies.

According to Munir, and Blount (2014), accounting policies are a set of standards that govern how a company prepares its financial statements. These policies are used to deal specifically with complicated accounting practices such as depreciation methods, recognition of goodwill, preparation of research and development (R&D) costs, inventory valuation, and the consolidation of financial accounts. These policies may differ from company to company, but all accounting policies are required to conform to generally accepted accounting principles (GAAP) and/or international financial reporting standards (IFRS).

For commercial bank that has gone global, it is a must to follow these accounting standards. These standards are a set of guidelines and procedures for accounting in commercial banks ((Jenning et al., 2008). The purpose of developing these standards is to ensure that accounting information is uniform and accounting decisions are made in a reasonable way.

Jenning et al., (2008) argues that the principal role of the accounting standards is to bring universality to financial records and bookkeeping. Commercial banks and every other accounting body have to follow the same accounting procedure. Following a uniform procedure in accounting, all comparisons can be made among the financial status of similar bodies.

Accounting procedures are designed to offer increased clarity, guidance and transparency. There are many types of procedures that should be documented; accounting is just one aspect on which businesses of all sizes must focus. Documenting accounting procedures is essential to ensure that consistency is maintained and that applicable accounting principles and policies are appropriately followed (Jones, 2007).

Jones further argued that establishing and maintaining good accounting policies and procedures for organization is an investment of time and attention. There is no “one size fits all” and creating an accounting policies and procedures manual should be tailored depending on the size of the organization, complexity, staffing and business model.

According to Adell (2011) affirms that generally accepted accounting principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

Control activities are the specific policies and procedures management uses to achieve its objectives. The most important control activities involve segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on management.

Kenisho (2004) contend that internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization’s communication processes, internally and externally, and include procedures for (1) handling funds received and expended by the organization, (2) preparing appropriate and timely financial reporting to board members and officers, (3) conducting the annual audit of the organization’s financial statements, (4) evaluating staff and programs, (5) maintaining inventory records of real and personal property and their whereabouts and (6) implementing personnel and conflicts of interest policies.

Internal control ensures effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations to which the company is subject. According to Mawanda (2008), a sound internal control system helps the firm to prevent frauds, errors and minimize wastage. The increase of business units has encouraged the use of internal control as it ensures orderly and efficient conduct of business including adherence to internal policies. The completeness and accuracy of accounting records, timely preparation of financial information, can only be achieved if the proper internal control system is in place. The institution’s ability to maximize its profit depends in part on the design and effectiveness of the processes and safeguards it has put in place over accounting and financial reporting (Ndungu, 2013). While no practical control system can absolutely assure financial reports will never contain material errors or misstatements, an effective system of internal control over financial reporting can substantially reduce the risk of such misstatements and inaccuracies in company’s financial statements (Kaplan, 2008).

In summary, if a commercial bank tries to go against these standards, it can face legal issues with its competitors or its observers. In the case of public or government organizations, the public is also the observer to challenge the organization. Fraudulent practices are difficult to get away with in the presence of accounting standards. Compliance in accounting standards is a chief principal of business.

**Financial transactions are properly authorized to avoid misallocation of funds in Commercial Banks.**

In commercial banks, accounting controls are designed to ensure that transactions are correctly calculated, recorded, and processed. It brings about maintaining documentations to substitute transactions. It helps the recording function to be done properly. That is transactions to be recorded are authorised, correctly recorded and accurately processed. This includes checking the arithmetic accuracy of the records-validation and verification and reconciliations of documents.

According to Tadius (2017) a system of effective internal controls is a critical component of financial management and a foundation for the safe and sound operation of any commercial bank. In view of the potential for material loss, particularly through electronic activities, institutions must establish a strong internal control environment. The extent of an institution's internal control program should be commensurate with the complexity and sophistication of the activities in which it engages. As with many other aspects of institution operations, the type of controls used will vary but will likely consist of policies, procedures, operating parameters, monitoring activities, separation of duties, reporting, audit, and management information systems. For instance, policies and procedures should address the internal controls necessary to ensure financial is adequately safeguarded and recorded/reported to reflect actual balances on hand. Segregation of responsibilities is one control that can be used to safeguard financial and reasonably ensure the reliability of accounting records. For example, the same person should not be responsible for recording the financial received on account and for posting the receipts to the accounting records. Signatory authorities and an effective internal audit function can also be used to provide additional controls over the financial management function.

Effective internal control reduces the risk of asset loss, and helps ensure that plan information is complete and accurate, financial statements are reliable, and the plan’s operations are conducted in accordance with the provisions of applicable laws and regulations (Doyle et al., 2015). When internal control is effective, you have reasonable assurance that your plan is achieving its financial reporting objectives.

An effective system of internal control protects bank plan in two ways: (i) by minimizing opportunities for unintentional errors or intentional fraud that may harm the plan. Preventive controls, which are designed to discourage errors or fraud, help accomplish this objective. (ii) By discovering small errors before they become big problems. Detective controls are designed to identify an error or fraud after it has occurred.

Beeler et al., (2019) affirms that a deliberate and proactive approach in fraud and risk management is commonly found in commercial banks where there are anti-fraud units. These units could be part of the audit department, a unit related to corporate security, a unit of information technology or a cross-functional team of professionals with an explicit mandate to ensure that fraud control measures have been established and are effective.

The process of identification of fraud will help the bank to access its susceptibility and identify which types it has to address particularly. Having done so, the next stage would be evolving measures to prevent the occurrence of such frauds. Ekechi (2014) states that measures aimed at fraud prevention include dual control, operational manual, graduated limits of authority, leading units, reporting systems, close circuit television, establishment of inspectorate unit, verification of signatures, close watch on the lifestyle of staff and coding/decoding and testing of telex message. Measures aimed at fraud detection include: Checking of cashiers, call-over, reconciliation and balancing of accounts at department, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection and supervision by the management officials.

Segregation of duties is done to ensure that no single individual is responsible for all aspects of the transactions from the beginning to the end. This is fundamental to a good internal control system. The involvement of more individuals reduces the risk of accidental error or deliberate fraud. There are certain duties which if combined would enable one individual to record and process a complex transaction (Saarens and de Beelde, 2006). This control reduces the risk of intentional or deliberate manipulations or errors by instituting the system of counter checking. Therefore, for manual operated system, the functions of authorization, execution, custody, and recording, must be vested on different individuals while for computer based accounting system, the functions of system development and systems daily operations should be vested on separate individuals.

Whistle blowing is a new concept that has to do with calling attention to wrong doing that is occurring within a bank. The experts and analysts believe that whistle blowing which is the act of exposing fraud, waste, abuse or misbehavior in a bank is on the increase globally (Jussi and Petri, 2014). A whistleblower just like the internal auditor is an employee, former employee, or member of a bank, especially an agent who reports misconduct to people or entitles that have the power and presumed willingness to take corrective action. The internal whistle blower is that person who reports misconduct to another employee or superior within their company or agency. Therefore whistle blowing can also form part of the internal control system in a bank.

The success of any commercial bank depends on an effective system of **internal control** a company’s plan to encourage adherence to company policies and procedures, promote operational efficiency, minimize errors and theft, and enhance the reliability and accuracy of accounting data. Internal control refers to a company's plan to (a) encourage adherence to company policies and procedures, (b) promote operational efficiency, (c) minimize errors and theft, and (d) enhance the reliability and accuracy of accounting data. From a financial accounting perspective, the focus is on controls intended to improve the accuracy and reliability of accounting information and to safeguard the bank's assets (Jussi and Petri, 2014).

**Internal controls cover both the financial and non-financial resources of commercial banks to ensure effective financial performance.**

A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organisations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organisation will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting (Wilks and Zimbelman (2014). Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank’s reputation.

Effective internal controls are the foundation of safe and sound banking. A properly designed and consistently enforced system of operational and financial internal control helps a bank’s board of directors and management safeguard the bank’s resources, produce reliable financial reports, and comply with laws and regulations (Tadius, 2017). Effective internal control also reduces the possibility of significant errors and irregularities and assists in their timely detection when they do occur.

Internal control keeps the assets of a company safe and keeps the company from violating any laws, while fairly recording the financial activity of the company in the accounting records (Thomasa and Kumara, 2016). Proper accounting records are used to create the financial statements that the owners use to evaluate the operations of a company, including all company and employee activities. Internal controls are more than just reviews of how items are recorded in the company’s accounting records; they also include comparing the accounting records to the actual operations of the company.

Internal controls are the basic components of an internal control system, the sum of all internal controls and policies within an organization that protect assets and data (Donald and Delno, 2009). A properly designed system of internal controls aims to ensure the integrity of assets, allows for reliable accounting information and financial reporting, enhances efficiency within an organization, and provides guidelines and possible consequences for dealing with breaches. Internal controls drive many decisions and overall operational procedures within an organization. A properly designed internal control system will not prevent all loss from occurring, but it will significantly reduce the risk of loss and increase the chance of identifying the responsible party.

Donald and Delno, (2009) further explained that physical control, this is where assets must be kept physically secured and this must be particularly important for valuable and portable items. Also the usage of cameras, locks, physical barriers etc to protect property such as documents, stocks, motor vehicles. This control is mainly concerned with measures designed to ensure that access to assets limited to authorised personnel. It attempts to prevent direct access, through documentation, to valuable and portable assets.

Baysinger, (2009) states that good internal control can help a bank achieve its objectives and avoid surprises. Effective control systems may detect mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions in addition to fraud or deliberate noncompliance with policies. Effective and well-designed control systems are still subject to execution risk. In other words, human beings still must execute most control systems and even well trained personnel with the best of intentions can become distracted, careless, tired, or confused.

Effective internal control reduces the risk of asset loss, and helps ensure that plan information is complete and accurate, financial statements are reliable, and the plan’s operations are conducted in accordance with the provisions of applicable laws and regulations. When internal control is effective, organizations have reasonable assurance that their plan is achieving financial reporting objectives (Dwivedi, 2002).

Internal control over safeguarding of assets against unauthorized acquisition, use or disposition is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements (Glendenning, 2008).

**Financial Performance**

Financial performance is the ability to operate efficiently, profitability, survives, grow and react to the environmental opportunities and threats Sebbowa (2009).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate.

Financial performance is a complete evaluation of a company’s overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability. It is measured through various business-related formulas that allow users to calculate exact details regarding a company’s potential effectiveness. For internal users, financial performance is examined to determine their respective companies’ well-being and standing among other benchmarks. For external users, financial performance is analyzed to dictate potential investment opportunities and to determine if a company is worth their while.

Financial Performance measures in banks can be financial or non-financial. The most effective way to improve financial performance is by reducing the level of irregularity and fraud through improvements in the firm’s systems of internal financial control. Shareholders need to be assured that their resources are being used efficiently and effectively in providing the right service at the least cost.

Commercial banks are created for specific objectives. For banks to achieve its objectives, they must be able to perform their operations efficiently and effectively. Commercial banks need to adopt effective business practices to help them accomplish their objectives as well as sustain their financial performance. The performance of banks is measured regarding their abilities to achieve their specific organisational objectives. Performance refers to the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats, (Mawanza, 2014). Performance is one of the major indicators that explain the level of development of any society. Recently, the challenges of the global business environment have re-echoed the need for corporate organisations to have more concerns about the success of business firms. Firm performance has been viewed as one of the most important variables that attracted the attention of researchers in both finance and management literature (Gavrea, Ilies and Stegerean, 2011). Bank performance is a concept that explains the extent to which a bank achieves financial objectives. It indicates how banks have been peering overtime (Saeidi, Sofian and Siti Zaleha, 2014). Bank performance is an indicator that helps to evaluate and measure how a bank succeeds in realising business objectives to all its stakeholders (Antony and Bhattacharyya, 2010).

The study by (Galbraith and Schendel, 2013) specifically found that financial indicators such as return on sales, return on assets, profit margin, and return on equity are considered to be the common measures of financial performance of organisations. Similarly, in the context of the performance of commercoa; banks in South Sudan, the study by Kasim, Minai, and Chun (2010) found sales, sales growth, net profit and gross profit as the common financial measures preferred by the financial institutions (Jusoh and Parnell, 2008). However, in the case of commercial banks, practitioners and researchers agree that these banks need to adopt different measures of organisational performance. As a social business, commercial banks have both financial as well as social objectives. Given this, the performance of commercial banks should be measured by using not only financial but also non-financial or social measures (Thomasa and Kumara, 2016).

**Measurement of Financial Performance**

Financial performance is often measured using various variables to determine how well an entity had attained its financial objectives over a period of time. To appreciate how financial performance is measured, it is important to understand what performance measurement is. Performance measurement is the process of quantifying the efficiency and effectiveness of past action (Ittner, 2011). In more concrete terms, performance measurement is the process of measuring how well organizations are managed against their targets and the value they generate for their stakeholders.

From a broader perspective, Upadhaya, Munir, and Blount (2014) pointed out that performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organisation, system or component. It can involve studying processes or strategies within organisations, or studying engineering processes or parameters or phenomena, to see whether output are in line with what was intended or should have been achieved.

According to Dixon et al (2010), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Kotey and Reid and Ashelby (2012)contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

**Relationship between Internal Controls and Financial Performance**

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jenning et al., 2008). Internal control therefore has a much broader purpose in the organization level. Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Donald and Delno, 2009).

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2013). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements (Doyle et al., 2015).

Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better performance (Beeler et al., 2019). According to Fadzil et al. (2015), an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control over performance involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner et al., 2013).

Most organizations no longer set up internal control system as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon and Tilton, 2016). Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use these internal control systems since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company’s ability to achieve its goals are appropriately avoided and should occur at all levels and in all functions of the organization.

Further, there are three major classifications of internal controls; preventive, detective, and corrective (Singleton, 2016). Preventive controls predict potential problems before they occur, make adjustments, and prevent error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, error or malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize the future occurrence of the problem.

Risk management encompasses a set of resources, behaviors, procedures and actions that is adapted to the characteristics of each organization, and that enables managers to keep risks at an acceptable level for the company. Risk management and internal control systems complement each other in controlling the company’s activities. Its aim is to identify and analyze the company’s main risks. Risks that exceed the acceptable levels set by the organization are dealt with subject to plans of action. For some time now, risk management in general and internal control more specifically; have been considered as fundamental elements of organizational governance. As a consequence, risk management is beginning to be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value (Saarens and de Beelde 2006). In the United States for instance in 2002, a grouped companies sponsored the formation of the threadway commission to study and report on how to improve the effectiveness of internal control systems, and more recently in 2002 the US congress passed the Sarbanes-Oxleyact giving new directives on how companies are to report on the effectiveness or otherwise of their internal control systems.

# Conceptual Framework

Miles and Huberman (2004) define a conceptual framework as the current version of the researcher's map of the territory being investigated. Implicit in their view is that conceptual frameworks may evolve as research evolves. Their notion accommodates purpose (boundaries) with flexibility (evolution) and coherence of the research (plan/analysis/conclusion) which all stem from conceptual frameworks. Mugenda and Mugenda (2006) also view a conceptual framework as a hypothesized model identifying the model under study and the relationships between the dependent variable and independent variables.

**Independent Variable Dependent Variable**

**Financial Performance**

* Financial Accountability
* Financial Reporting
* Transparency
* Profit Maximization
* Financial Control

**Internal Control System**

* Compliance with accounting regulations and procedures.
* Authorization of financial transactions.
* Financial and non-financial aspects.

**Moderate Variables**

* Organization policy
* Government policies and regulation
* Organization culture
* Ethical Code of Conduct

# Figure 2.1: Conceptual Framework

**Source: COSO, 2005, Modified by the Researcher, (2021)**

This study based on the mentioned framework especially the implication of the Internal Control System and Financial Performance. Independent variable of the study is Internal Control Systems while the dependent variable is Financial Performance. Internal Control Systems consist of compliance of accounting regulations and procedures; Authorization of financial transactions and Financial and non-financial aspects and Financial Performance as dependent variable consist of Financial Accountability, Financial Reporting, Transparency, Profit Maximization, Financial Control and Liquidity. Though moderating variables consist of organization policy, government policies and regulation and organization culture.

**Summary of Literature and Research gaps**

The reviewed literate showed mixed results on the relationship between the internal control systems and financial performance of commercial banks. Most of the researches done on internal controls are case studies and focus on specific institutions/companies that exhibit particular characteristics or material weakness in the internal control systems. Since most of the studies failed to show how commercial banks comply with accounting regulations and procedures to enhance financial performance; how banks ensure that all financial transactions are properly authorized to avoid misallocation of funds and how does an internal control system cover both the financial and non-financial aspects of the Bank to ensure effective financial performance. Therefore this research addresses them to fill those gaps.

# 

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter presents a detailed description of the methodology that was used in collecting relevant data to the study. It contains the research design, study population, study area, sample size, sample size determination, sampling techniques, data collection procedure, data collection methods, data collection instruments, data processing, data analysis, ethical consideration and anticipated limitation of the study.

# Research Design

A research design is the blueprint followed by the researcher while collecting study data and conducting the analysis process (Panneerselvam, 2014). It is a systematic structure that the researcher adopted while carrying out the data collection process, as it outlined the order of activities that were done.

This study adopted a descriptive research design which according to Creswell (2017) is appropriate in the creating a profile of the variables. This study used descriptive research design to examine the role of internal controls on financial performance of Equity Bank- Munuki Branch. The qualitative and quantitative approaches were adopted basing on the employees drawn from Equity Bank- Munuki Branch. These research approaches were useful in collecting accurate data and they also be facilitated the analysis of the relationships between the study variables.

# Study Population

Population consists of the entire group of events, elements and individuals that have a common observable characteristic (Lewis, 2015). It is the entire set of data that is of interest to the researcher (Saunders, Thornhill and Lewis 2016). The population of the study comprised of 85 employees of Equity Bank- Munuki Branch. This includes staff from Administration, Management, Internal Audit, Finance and accounting, Budgeting, Credit department, Information Technology and other departments.

# Table 3.1: The study population

|  |  |
| --- | --- |
| **Category** | **Total Population** |
| Administration | 10 |
| Management | 08 |
| Internal Audit | 08 |
| Finance and accounting | 12 |
| Budgeting | 06 |
| Credit | 10 |
| Information Technology | 06 |
| Others | 25 |
| **Total** | **85** |

Source: Primary Data, 2021

# Sample Size Determination

Moser and Kalron (1979:53) asserts that in many cases, a researcher is unable to cover the entire population, in which case he/she takes a sample that is part of the population. They further experiment that the researcher is forced to sample in order to save money, time and other resources. The sample size for this study was selected based on the criteria set according to Neumann’s formula (2000) as presented below. The sample size of respondents was 70 as calculated using Neumann’s formulae as follows.

n = N  
 1+ N(e2)

Where:   
n = sample size  
N = target population

e = level of significance = e = 0.05 = e2 = (0.05)2 =0.0025

n = 85  
 1 + 80(0.05)2  
  
 n = 85  
 1 + 85(0.0025)

n = 85  
 1 + 0.2125

n = 85  
 1.2125  
 **n = 70**

# Table 3.2: Population and Sample size

|  |  |  |
| --- | --- | --- |
| **Category** | **Sample Size** | **Sampling method** |
| Administration | 08 | Purposive sampling |
| Management | 07 | Purposive sampling |
| Internal Audit | 07 | Purposive sampling |
| Finance and accounting | 10 | Purposive sampling |
| Budgeting | 05 | Purposive Sampling |
| Credit | 08 | Random sampling |
| Information Technology | 04 | Random sampling |
| Others | 21 | Random sampling |
| **Total** | **70** |  |

Source: Primary Data

**Sampling Techniques**

Purposive and random sampling methods or techniques were used in selecting the respondents.

# Purposive sampling

Purposive sampling was used to select respondents based on the nature of their work in relation to internal control and financial performance in Equity Bank-Munuki Branch. This method was used to select samples from the departments of administration, management, internal auditors, finance and accounting, and budgeting. Purposive sampling was considered appropriate because it involved the selection of respondents deemed to be in good position to provide data that would be comprehensive enough to enable the researcher gain an insight into the problem being studied.

# Random Sampling

Random sampling was used in selecting the respondents from the population listing by chance. In this way every member of the population under the study had an equal chance of being selected. Random sampling was used to select samples from the credit department, I.T departments and some few knowledgeable customers were involved in the study.

# Data Collection Methods

The study used both primary and secondary methods of data collection. Primary Data was collected and sorted specifically for this study through use of questionnaires and interview. Secondary data involved studying relevant literature in the commercial banks having internal control systems and elsewhere.

# Questionnaires

This study used structured questionnaires designed by the researcher in order to collect relevant data. Questionnaires were designed in view of the research questions to solicit relevant information from the respondents Equity Bank-Munuki. This method helped to delimit the perceptions and sentiments of the respondents that could have consequences to the subject under study. Open-ended questionnaires were used in order to supplement each other. The close-ended questionnaires were used to get information that is definite, while the open-ended questions were used in getting detailed information on internal controls and financial performance.

# Interviewing

Interview means face to face interaction between the interviewee and the interviewer. The interviews were held with those respondents identified purposely crucial to the provision of explanations to the topic under study. The questions for the interview were both open-ended and closed. The open-ended questions gave chance to more discussions, while the closed questions were asked for particular responses. The interview method helps the researcher to collect additional views from respondents on the theme of the study. The questions were filled on spot and the respondents were interviewed from their places of work to save time.

# Review of Related and Existing Documents

This method was used in order to get data from records on internal control systems and financial performance in Equity Bank- Munuki Branch. Bank official documents such as budgets, financial books, minutes of meetings, annual budget reports and administrative reports, SS Financial Institution Act and management reports were used. The secondary data was gathered from published books, research reports, journal and newspaper articles and internet. The Financial Institution Act, and Accounting and Financial regulations were reviewed in detail. These provided information needed in the study and writing of the final report.

# Data Collection Instruments

The data was collected by the following research instruments or tools.

# Self Administered Questionnaire

A questionnaire is an instrument used in research that contains closed ended questions with choices that triggers that aimed at collecting data from participants in the study (Amin, 2005).The above questions were designed based on a five item Likert Scale (1-5) and provided quantified data that was descriptively and inferentially presented (Amin, 2005). This instrument was used because it is filled at respondents’ own convenience, it eliminates bias, less time is needed and it is less expensive or cheaper when used (Kothari 2008). The researcher physically delivered the questionnaires to the selected respondents and picked them after one week, this enabled the respondents to have ample time to understand and fill.

# Interview Guide

An interview guide refers to a qualitative tool of collecting data by asking people questions and following up or probing and prompting their answers (Kothari 2004). The interview guide was used to conduct interviews on administrative and managerial employees in Equity Bank - Munuki.

Open ended questions were used to gather information where by the researcher was guided by the tool to ask the questions and the respondents’ responses were recorded. This kind of encounter allowed for probing to establish the occurrences of given phenomenon in regard to identified concepts that were created and formed questions asked (Mugenda & Mugenda 2011). Creswell (2013) argues that qualitative interviews allow a researcher to conducts face-to-face interviews with participants, telephone interviews, or engages in focus group interviews with six to eight interviewees in each group.

# Documentary Review Checklist

A documentary review check list was designed to extract the necessary information from the documents. These include Equity Bank Financial and Accounting Policies and Procedures, Equity Bank Internal Control Policies and Dissertations of other researchers, websites, company journal, etc.

# Data Collection Procedure

The researcher sought for one supportive letters explaining the objectives of the research signed by the Dean of School of Business Administration (SBA) of Nkumba University. These were delivered to the Equity Bank-Munuki offices in South Sudan to conduct research. The researcher will start on distribution of questionnaires and arranging interviews. The data for this research was collected using a survey questionnaire. The survey was created using suitable questions modified from related research and individual questions formed by the researcher. The survey was comprised of 41 questions, which was related to internal control system and financial performance in Equity Bank- Munuki.

In the questionnaire, Likert scale was used to determine if the respondent agreed or disagreed in a statement. After the supervisor validating the questionnaire, these were distributed to the staff of Equity Bank- Munuki in South Sudan. The researcher ensured confidentiality of each survey sheet since the identities are not important. The researcher allowed people’s opinions to be anonymous so that it doesn’t affect their honesty and effectiveness in answering the survey. Participants were given one week to respond to the questionnaire before collection is done. Next, the researcher planned the questions for the interview guide and go-ahead and schedule interviews with the respective people as per the interview method above.

# Validity and Reliability of Instrument

# Validity of Instrument

Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda, 2009). Validity of instruments was ascertained by first of all discussing the questionnaire drafts with the study supervisor. The researcher contacted other two experts in order to get expertise judgment on the validity. The formula to be used to test validity index is;

CVI= Number of items regarded relevant by the judgesx 100

Total number of items in the questionnaire

# Reliability of Instrument

According to Mugenda (2009), reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The reliability of instrument was established basing on the preliminary results derived from the pilot study. The study instruments were set for the pilot run. Results were discussed with the supervisor; the reliability of the questionnaire was established using Cronbach Alpha Coefficient.



Where;

Reliability, Alpha Coefficient (Cronbach)

K = Number of items in the instrument

 = Variance of individual items

 = Variance of the total instrument

= Summation

Any Cronbach alpha greater than 0.6 shows that the instruments used in data collection were consistent and reliable.

# Table 3.2: Reliability of instruments

| No. of items | | Section of the questionnaire | Cronbach’s Alpha |
| --- | --- | --- | --- |
| 1. | | Accounting regulations and Procedures | .787 |
| 2. | | Authorization of Financial Transactions | .794 |
| 3. | | Financial and Non-Financial Resources | .790 |
|  | Average |  | .790 |

Source: Primary Data, (2021)

The reliability coefficient for each of the sections above exceeds 0.75. As can be seen from table 3.2, the lowest was 0.790 and the highest was 0.794. The average was 0.876 or 87.6%. According to Chadwick, Bahr and Albrecht (1984: 250) as cited in Ehlers (2002:27) are of the opinion that reliability was acceptable at a level of 0.6 or above, with absolute reliability of 1.0 implying that the scales on the questionnaire that were used to measure the three sections were reliable and consistent.

# Data Processing

Data has no clear meaning unless it is analyzed and interpreted. Data analysis therefore gives raw data meaning and implications. Babbie, (2005) list the operations of data analysis to include editing, coding, classification and tabulation. It also entails categorizing, ordering, manipulating and summarizing data in order to find answers to the research questions.

Data processing was done through different stages. The data collected from different questionnaires and interviews were organized so that order can be created. Editing and cross checking was done so that errors can be detected and corrections made. This helped to find out completeness in the questionnaires. After editing the data, coding followed. This involves assigning of symbols to answers so that data can be categorized for example by age, level of education and job title. Quantitative data was summarized and presented in frequency tables to generate descriptive statistics. These aimed at enabling quick reading and understanding of the data.

# Data Analysis

The data was collected from the field using questionnaires, interview schedules, and observation checklist will be analyzed using both descriptive statistics and inferential statistics (correlation, regression and coefficients), Percentage was obtained from the frequency tables and correlation then the interpretation of the descriptive statistics. This made it possible to make appropriate inferences in terms of internal control systems and financial performance in Equity – Bank, Munuki.

# Ethical Consideration

The researcher obtained the consent of potential respondents, and explained to them the purpose and nature of the research, not only to ensure that participation in the research is voluntary, and also given to the full. When respondents volunteered to participate in the research, they were assured of confidentiality, and the assurance of their rights to withdraw from the research especially if and when questions asked, or if the process in general, tended to trigger emotional responses and affect self-understanding. In addition, the researcher endeavoured to make the process useful to the respondents by, for example, providing information that addressed questions are likely to rise, and giving them information about other support services. As it is increasingly advocated that people who contribute to research as participants, informants or respondents should be offered or given information about research findings and outcomes (Magga, 2003), the researcher discussed draft bits of findings with key informants, and promised to provide them with copies of the final report of the research.

# Limitation to the Study

The following limitations were faced while carrying out the research exercise:

Financial resource constraints because of being a student and not having enough finance to effectively carryout the study. This was solved by soliciting for funds from friends and relatives as well as personal savings.

Time frame for the study was not enough due to other relatively demanding issues. This was addressed by trying to utilize effectively every little time available.

The researcher encountered low response rates since such data about internal control system and financial management need concealment. This was solved by using different instruments in the study that generates more information on the study.

The researcher encountered the problem of lack of cooperation by some respondents, as well as the bureaucratic procedures in the bank. The researcher overcame this issue by being humble or and straight forward.

# CHAPTER FOUR

# DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

# Introduction

This section presents the background information focusing on the gender age, marital status, education, department of work and lastly the number of years spent in the department. The study constituted of 67 respondents all of whom were staffs and few customers of Equity Bank-Munuki in South Sudan.

A total of 70 questionnaires were distributed to the selected respondents in the study area. Out of the 70 questionnaires that were distributed, 67 questionnaires were fully completed and returned to the researcher and therefore considered for data analysis. This suggests a 96% response rate. This response rate was deemed to be appropriate since Kothari (2004) asserts that any response rate of 70% is adequate, while a response rate greater than 65% is very good.

# Gender of the Respondents

The study sought to ascertain the gender of the respondents that participated in the study and results obtained are summarized in the table 4.1.

# Table 4.1: Gender of the Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Male | 38 | 56.7 | 56.7 |
| Female | 29 | 43.3 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 4.1 shows that out of 67 respondents who participated in the study, 38(56.7%) of them were male respondents and 29(43.3%) were female respondents. This implies that the research study considered gender balance during the study process at least all genders participated in the study.

# Age bracket of the Respondents

The study sought to find out the age of the respondents that participated in the study and results obtained are summarized in the table 4.2.

# Table 4.2: Age bracket of the Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | 20 – 30 | 25 | 37.3 | 37.3 |
| 31 – 40 | 16 | 23.9 | 61.2 |
| 41 – 50 | 18 | 26.9 | 88.1 |
| 51+ | 8 | 11.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 4.2 demonstrates the frequency levels of the age groups of the respondents used in the study and it shows that, 25(37.3%) of them are aged below 20-30 years, 16(23.9%) are aged between 31-40 years, 18(26.9%) of them are aged between 41-50 years and lastly only 8(11.9%) are aged between 51 years and above.

# Current Marital Status of the Respondents

The study sought to discover the marital statuses of the respondents that participated in the study and results obtained are summarized in the table 4.3.

# Table 4.3: Current Marital Status of the Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Married | 19 | 28.4 | 28.4 |
| Single | 39 | 58.2 | 86.6 |
| Divorced | 5 | 7.5 | 94.0 |
| Widowed | 4 | 6.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Research findings in table 4.3 indicates that, of the total respondents in the study, 19(28.4%) were married, 39(58.2%) were single, 5(7.2%) were divorced and 4(6%) were widowed according to the data obtained from the questionnaires. This implies that the research used a considerable number of respondents from the selected case study and all members had an equal chance of participating in the study.

# Highest education level attained by the Respondents

The study further sought to ascertain the education levels of the respondents and results obtained are summarized in the table 4.4.

# Table 4.4: Highest education level attained by the Respondents

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Certificate | 7 | 10.4 | 10.4 |
| Diploma | 16 | 23.9 | 34.3 |
| Bachelors | 38 | 56.7 | 91.0 |
| Masters | 6 | 9.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 4.4 presents the levels of education of the respondents used in this study. It shows that 7(10.4%) have certificates, 16(23.9%) have diplomas, 38(56.7%) have bachelor degrees, and 6(9%) of them posses masters degree. This is a clear implication that the respondents were able to provide information on internal control systems and financial performance in Equity Bank-Munuki.

# Department of Work in Equity Bank-Munuki

The study also sought to reveal the department of work by the respondents at Equity Bank-Munuki and results obtained are summarized in the table 4.5.

# Table 4.5: Designation in Equity Bank-Munuki

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Administration | 8 | 11.9 | 11.9 |
| Management | 7 | 10.4 | 22.3 |
| Internal Audit | 7 | 10.4 | 32.7 |
| Finance and Accounting | 10 | 14.9 | 47.6 |
| Budgeting | 5 | 7.5 | 55.1 |
| Credit | 8 | 11.9 | 67.0 |
| Information Technology | 4 | 6.0 | 73.0 |
| Others | 18 | 27.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 4.5 the department of work of the respondents used in the study. Results show that, 8(11.9%) of them were from the Administration, 7(10.4%) of them were from management department, 7(10.4%) of them were from the internal audit department, 10(14.9%) of them were from the Finance and accounts, 5(7.5%) of them were from budgeting department, 8(11.9%) of them were from the credit department, 4(6%) of them were from the I.T, and lastly 18(46.3%) of were operational workers and some customers. Almost all staff of Equity Bank-Munuki was represented in the study and results generated gave a true picture of internal control systems and financial performance.

# Tenure with Equity Bank-Munuki

# The study also further sought to discover the tenure spent by the respondents at Equity Bank-Munuki and results obtained are summarized in the table 4.6.

# Table 4.6: Tenure with Equity Bank-Munuki

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | 1-2 Years | 20 | 29.9 | 29.9 |
| 3-4 Years | 26 | 38.8 | 68.7 |
| 5-7 Years | 15 | 22.4 | 91.0 |
| 8 years and above | 6 | 9.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

In Table 4.6 indicates the number of years the respondents have worked with Equity Bank-Munuki. Results show that, 20(29.9%) of them have worked for 1 to 2 years at Equity Bank-Munuki, 26(38.8%) of them have worked there for a period of 3 to 5 years, 15(22.4%) of them have worked there for a period of 6 to 8 years and lastly 6(9%) of them had worked for Equity Bank-Munuki for more than 9 years and above. The results indicate that the respondents used in the study, had worked for some good time to put in them in position to give the required responses on the study variables of internal control systems and financial performance.

# CHAPTER FIVE

# EQUITY BANK MUNUKI BRANCH HAS COMPLIED WITH ACCOUNTING REGULATIONS AND PROCEDURES TO ENSURE FINANCIAL PERFORMANCE

# Introduction

This chapter presents the analysis of the collected data, the results and the interpretation of the findings on first objective which sought to establish whether Equity Bank Munuki has complied with accounting regulations and procedures to ensure financial performance. Frequency tables, correlations, model summary, ANOVA and coefficients are presented to illustrate the analysis and interpretation of the data.

Accounting regulations are the specific principles and procedures implemented by a company's management team that are used to prepare its financial statements. These include any accounting methods, measurement systems, and procedures for presenting disclosures.

Accounting regulations and procedures are a set of standards that govern how a company prepares its financial statements. These policies are used to deal specifically with complicated accounting practices such as depreciation methods, recognition of goodwill, preparation of research and development (R&D) costs, inventory valuation, and the consolidation of financial accounts. Therefore, this section is set to establish whether Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance.

# The Bank has Accounting and Financial Procedures Manual

An accounting and financial procedure manual contains pertinent accounting rules and other information for a business or organization. The study asked whether the Bank has Accounting and Financial Procedures Manual and their responses were, 11(16.4%) strongly disagreed, 10(14.9%) disagreed, 35(52.2%) agreed and 11(16.4%) strongly agreed as shown in table 5.1.

# Table 5.1: The Bank has Financial Procedures Manual

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 10 | 15.0 | 31.4 |
| Agree | 35 | 52.2 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 5.1 present that 46(68.6%) of the respondents agreed that Equity Bank- Munuki has accounting and procedures manual. This means that the Financial Procedures Manual has been formulated and adapted in order to comply with all requirements and procedures for accounting for Equity Bank. They further elaborated that the manual contains information for the various departments in the Bank, the types of accounting used, special instructions for maintaining ledgers, reporting requirements, and budgetary information. Though, 21(31.4%) of the respondents disagreed. This indicates that even though the manual is available, it was found out that there are some employees who have failed to comply with it.

# Equity Bank-Munuki complies with all applicable financial laws

On the question whether Equity Bank-Munuki complies with all applicable financial laws and regulation to ensure effective financial performance and their responses were, 14(20.9%) strongly disagreed, 9(13.4%) disagreed, 7(10.4%) were neutral, 26(38.8%) agreed and 11(16.4%) strongly agreed as revealed in table 5.2.

# Table 5.2: Equity Bank-Munuki complies with all applicable financial laws

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 20.9 | 20.9 |
| Disagree | 9 | 13.4 | 34.3 |
| Neutral | 7 | 10.4 | 44.8 |
| Agree | 26 | 38.8 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to findings in table 5.2, 37(55.2%) of the respondents were in agreement that Equity Bank-Munuki complies with all applicable financial laws and regulation to ensure effective financial performance. This implies that Bank regulation is designed to address several issues such as information asymmetry (irregularity); bank failures; depositors' ability to recover their funds; unfair, discriminatory, or fraudulent practices; and systemic risk, thus improved financial performance. However, 7(10.4%) were not sure and 23(34.3%) of the respondents disagreed. This indicates that some officials in the bank have failed to comply with the available financial laws and regulations. Therefore, the Bank should implement strong laws to ensure fairness and transparency in all financial transactions.

# Rules and Guidelines used in preparing financial statement

Accounting policies are rules and guidelines that are selected by the bank for use in preparing and presenting its financial statements. Respondents were asked whether Equity Bank-Munuki has selected rules and guidelines that are used in preparing and presenting its financial statements, their responses were, 13(19.4%) strongly disagreed, 7(10.4%) disagreed, 4(6%) were neutral, 25(37.3%) agreed and 18(26.9%) strongly agreed as indicated in table 5.3.

# Table 5.3: Rules and Guidelines used in preparing financial statement

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.4 | 19.4 |
| Disagree | 7 | 10.4 | 29.8 |
| Neutral | 4 | 6.0 | 35.8 |
| Agree | 25 | 37.3 | 73.1 |
| Strongly Agree | 18 | 26.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 5.3 indicate that 43(64.2%) of the respondents generally agreed that Equity Bank-Munuki has selected rules and guidelines that are used in preparing and presenting its financial statements. This reveals that in Equity Bank-Munuki, accounting policies are important, as they set a framework, which all departments follow, and provide comparable and consistent standard financial statements across a year and relative to other departments. On the other hand, 4(6%) were not sure and 20(29.8%) of the respondents disagreed. Therefore, the bank should follow either the GAAP or IFRS when preparing financial statements to ensure improved financial performance.

# Disclosure of Financial Data and Accounting Information

On the question whether accounting and financial department fully disclose all financial data and accounting information in financial reports and their responses were 16(23.9%) strongly disagreed, 10(14.9%) disagreed, 3(4.5%) were neutral, 28(41.8%) agreed and 10(14.9%) strongly agreed as shown in table 5.4.

# Table 5.4: Disclosure of Financial Data and Accounting Information

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 16 | 23.9 | 23.9 |
| Disagree | 10 | 14.9 | 38.8 |
| Neutral | 3 | 4.5 | 43.3 |
| Agree | 28 | 41.8 | 85.1 |
| Strongly Agree | 10 | 14.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 5.4 presents that the majority 38(56.7%) of the respondents were in agreement that accounting and financial department fully disclose all financial data and accounting information in financial reports. This means that the department includes in bank’s financial statements all information that affects reader’s understanding of those statements. “*In an interview with some of the staff in Finance and Accounts Department, they elaborated that bank accountants commit to apply the same standards throughout the reporting process, from one period to the next, to ensure financial comparability between periods*”. Yet, 3(4.5%) were not sure and 26(38.8%) of the respondents were in disagreement. Therefore, the department should aim to improve the clarity, consistency, and comparability of the communication of financial information.

# Preparation of Accurate and Timely Financial Reports

The importance of accurate, timely, ethical financial reporting cannot be underestimated. Respondents were asked whether Accounting and Financial Department of the Bank prepare accurate and timely financial reports to ensure effective performance in all sectors and their responses were 15(22.4%) strongly disagreed, 8(11.9%) disagreed, 4(6%) were neutral, 25(37.3%) agreed and 15(22.4%) strongly agreed as summarised in table 5.5.

# Table 5.5: Preparation of Accurate and Timely Financial Reports

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 22.4 | 22.4 |
| Disagree | 8 | 11.9 | 34.3 |
| Neutral | 4 | 6.0 | 40.3 |
| Agree | 25 | 37.3 | 77.6 |
| Strongly Agree | 15 | 22.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 5.5 reveals that 32(47.7%) of the respondents agreed that Accounting and Financial Department of the Bank prepare accurate and timely financial reports to ensure effective performance in all sectors. This means that the department delivers invaluable insights and the information needed to drive top-line growth and bottom-line savings, manages risk, reflects good financial governance, empowers Bank to plan for the future, reassures and build trust amongst investors and stakeholders, support budget-setting decisions, mitigate errors or discrepancies. However, 4(6%) were not sure and 23(34.3%) of the respondents disagreed. This indicates that sometime the department fails to prepare accurate and timely financial reports.

# Accounting policies and procedures followed to manage irregularities

Accounting policies and procedures help the bank achieve its vision and mission and its long term and short term goals as well. On the question whether Equity Bank-Munuki discloses the accounting policies and procedure followed to manage irregularities and their responses were 11(16.4%) strongly disagreed, 5(7.5%) disagreed, 7(10.4%) were neutral, 24(35.8%) agreed and 20(29.9%) strongly agreed as presented in table 5.6.

# Table 5.6: Accounting policies followed to manage irregularities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 5 | 7.5 | 23.9 |
| Neutral | 7 | 10.4 | 34.3 |
| Agree | 24 | 35.8 | 70.1 |
| Strongly Agree | 20 | 29.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

In table 5.6, the study findings present that the majority 44(65.7%) of the respondents generally agreed thatEquity Bank-Munuki discloses the accounting policies and procedure followed to manage irregularities. This is an implication that the bank has reliable, well-written accounting procedures and policies provide an effective working governance structure. On the other hand, 7(10.4%) were neutral on the query and 26(23.9%) of the respondents were in disagreement. This means that a few staff in some departments fails to comply with the bank accounting or financial policies and procedures.

# Internal Control Policies and Procedures

Internal control policies and procedures are checks and balances that help protect a company (bank) from internal threats, such as theft, embezzlement and mismanagement of funds by employees, suppliers or customers. When respondents were asked whether Equity Bank-Munuki has internal control policies and procedures in place and their responses 5(7.5%) strongly disagreed, 10(14.9%) disagreed, 33(49.2%) agreed and 19(28.4%) strongly agreed as presented in table 5.7.

# Table 5.7: Internal Control Policies and Procedures

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 5 | 7.5 | 7.5 |
| Disagree | 10 | 14.9 | 22.4 |
| Agree | 33 | 49.2 | 71.6 |
| Strongly Agree | 19 | 28.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 5.7 reveals that 52(77.6%) of the respondents generally agreed that Equity Bank-Munuki has internal control policies and procedures in place. This indicates that Internal controls policies and procedures are putted in place to ensure the continued reliability of accounting systems. They further elaborated that the Bank has several internal control procedures and these include separation of duties, access controls, physical audits, standardized documentation, trial balances, periodic reconciliations, and approval authority. However, 15(22.4%) of the respondents disagreed. However, internal control procedures should be designed to prevent fraud and identify errors before they become problems.

# Financial Accounting Systems are routinely reviewed

Financial Accounting System (FAS) is an accounting system where the financial data of the organization is maintained. When respondents were asked whether Financial Accounting System are routinely reviewed and updated to assure the Bank remains financially sound and competitive, their responses were 11(16.4%) strongly disagreed, 7(10.4%) disagreed, 5(7.5%) were neutral, 17(25.4%) agreed and 27(40.3%) strongly agreed as presented in table 5.8.

# Table 5.8: Financial Accounting Systems are routinely reviewed

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 7 | 10.4 | 26.9 |
| Neutral | 5 | 7.5 | 34.3 |
| Agree | 17 | 25.4 | 59.7 |
| Strongly Agree | 27 | 40.3 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Study findings in table 5.8 present that 44(65.7%) of the respondents were in agreement that Financial Accounting System are routinely reviewed and updated to assure the Bank remains financially sound and competitive. This means that routine reviewing of the accounting system has enabled Bank’s accounting staff to supply relevant accounting information to stakeholders. On the other side, 5(7.5%) were not sure and 18(26.9%) of the respondents were in disagreement. This indicates that sometime the finance and accounts department fail to do routine review of the financial accounting system, thus unimproved financial performance.

# Procedures used in financial reporting are consistent

Financial reporting is a standard accounting practice that uses financial statements to disclose a company’s financial information and performance over a particular period, usually on an annual or quarterly basis. Respondents were asked whether the procedures used in financial reporting are consistent to allow comparison of the bank’s financial information and their responses were, 12(17.9%) strongly disagreed, 8(11.9%) disagreed, 7(10.4%) were neutral, 28(14.8%) agreed and 12(17.9%) strongly agreed as summarised in table 5.9.

# Table 5.9: Procedures used in financial reporting are consistent

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 17.9 | 17.9 |
| Disagree | 8 | 11.9 | 29.9 |
| Neutral | 7 | 10.4 | 40.3 |
| Agree | 28 | 41.8 | 82.1 |
| Strongly Agree | 12 | 17.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Research findings in table 5.9 indicate that 40(59.7%) of the respondents were in agreement that the procedures used in financial reporting are consistent to allow comparison of the bank’s financial information. This implies that the procedures used in financial reporting is consistent, allowing a comparison of the bank’s financial information. However, 8(11.9%) were not sure and 20(29.9%) of the respondents were in disagreement. Therefore, the bank should aim at providing coherence and allows comparison of the financial information published by the bank to ensure financial performance.

# Staff in Financial Department have adhered to GAAP rules

GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. On the question whether the Bank accountants and other staff in financial department have adhered to GAAP rules and regulations, their responses were 11(16.4%) strongly disagreed, 9(13.4%) disagreed, 7(10.4%) were neutral, 24(35.8%) agreed and 16(23.9%) strongly agreed as presented in table 5.10.

# Table 5.10: Staff in Financial Department have adhered to GAAP rules

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 9 | 13.4 | 29.8 |
| Neutral | 7 | 10.4 | 40.2 |
| Agree | 24 | 35.8 | 76.0 |
| Strongly Agree | 16 | 24.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 5.10 disclose that 40(59.7%) of the respondents generally agreed that the Bank accountants and other staff in financial department have adhered to GAAP rules and regulations. This is an implication that accountants in the Equity Bank-Munuki use GAAP rules and regulations to improve the clarity, consistency, and comparability of the communication of financial information, thus improved financial performance. Though, 7(10.4%) were not sure and 20(29.8%) of the respondents were in disagreement. This means that staffs in financial department sometime use other financial rules and regulations like IFRS and others to ensure financial performance.

# Accounting policies and procedures are designed to offer clarity.

Respondents were asked whether accounting policies and procedures are designed to offer increased clarity, guidance and transparency in Equity Bank-Munuki and their responses were; 7(10.4%) strongly disagreed, 8(11.9%) disagreed, 7(10.4%) were neutral, 27(40.3%) agreed and 18(26.9%) strongly agreed as presented in table 6.9.

# Table 5.11: Accounting policies and procedures are offer clarity.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 10.4 | 10.4 |
| Disagree | 8 | 11.9 | 22.3 |
| Neutral | 7 | 10.4 | 32.8 |
| Agree | 27 | 40.3 | 73.1 |
| Strongly Agree | 18 | 26.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

From table 5.11, the majority 45(67.2%) of the respondents agreed that accounting policies and procedures are designed to offer increased clarity, guidance and transparency in Equity Bank-Munuki. This implies that accounting policies and procedures used, provide a framework for the Bank in which it is expected to operate, record its day to day transaction, measure its assets and liabilities, and prepare its financial statement. Still, 7(10.4%) were not sure and 15(22.3%) of the respondents disagreed. Therefore, accounting policies and procedures should be followed religiously as it helps in maintaining consistency and increase investors’ and shareholder’s trust in the Bank, thus improved financial performance.

# TESTING HYPOTHESIS 1

There is significant relationship between compliance of accounting regulations and procedures and financial performance or not. The hypothesis was tested with Pearson Correlation and regression analyses were used to test the hypothesis and the results are as shown below.

# Correlations

Correlation results revealed that there is a significant relationship between compliance with accounting regulations and procedures and financial performance, (r=.787, P<0.000). This result indicates The Bank has accounting and procedures manual and complies with the majority of the applicable financial laws and regulations, thus improved financial performance.

# Table 5.12: Correlations betweencompliance with accounting regulations and procedures and financial performance

|  |  |  |  |
| --- | --- | --- | --- |
|  | | Compliance with accounting regulations and procedures | Financial Performance |
| Compliance with accounting regulations and procedures | Pearson Correlation | 1 | .787\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 67 | 67 |
| Financial Performance | Pearson Correlation | .787\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 67 | 67 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

# Model Summary

The model summary reflected in table 5.13 show *R* square = 0.619 or 61.9%. The observed value of 0.787 or 78.7% is significant; this means that Accounting and financial department fully disclose all financial data and accounting information in financial reports. The Adjusted R2 (.621) is the percentage of the variability in the Equity Bank Munuki - Branch financial performance that explain the linear regression. The result shows that the Bank has Accounting and Finance Department that prepares accurate and timely financial reports to ensure effective performance in all sectors, thus improved financial performance.

# Table 5.13: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .787a | .619 | .621 | .75532 |
| a. Predictors: (Constant), Compliance with Accounting Regulations and Procedures | | | | |

# ANOVA

The analysis-of-variance (ANOVA) table 5.14 was used to test the equivalent positive hypothesis, the F=2385.149, p<0.000 there is linear relationship between independent variable and the dependent variable. The result indicates that compliance with Accounting Regulations and Proceduresenhances financial performance in Equity Bank - Munuki.

# Table 5.14: ANOVAa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 2136.928 | 1 | 2136.928 | 2385.149 | .000b |
| Residual | 58.235 | 65 | .796 |  |  |
| Total | 2195.163 | 66 |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | | |
| b. Predictors: (Constant), Compliance with Accounting Regulations and Procedures | | | | | | |

# Coefficients

In table 5.15, Financial Performance was used as the dependent variable and compliance with accounting regulations and procedures as independent variable. It was established that compliance with accounting regulations and procedures (ß=0.787, t=48.838, P<0.000), this indicates that Accounting policies and procedures are designed to offer increased clarity, guidance and transparency in Equity Bank-Munuki.

# Table 5.15: Coefficientsa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.268 | .293 |  | 4.322 | .000 |
| compliance with accounting regulations and procedures | .458 | .009 | .787 | 48.838 | .000 |
| a. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER SIX

# PROPER AUTHORIZATION OF FINANCIAL TRANSACTIONS TO AVOID MISALLOCATION OF FUNDS AT EQUITY BANK-MUNUKI

# Introduction

This chapter presents analysis and interpretation of findings on second objective of the study which sought to establish whether all financial transactions are properly authorised to avoid misallocation of funds at Equity Bank - Munuki. In order to verify this objective descriptive statistics such as frequency tables, model summary, Pearson correlation, regressions such as Analysis of Variances (ANOVA), and coefficient were used to analyse data. Respondents were asked several questions in regard to the first objective and the results were presented, analyzed and interpreted as shown below.

Authorization is the basis by which the authority to complete the various stages of financial transaction is delegated. These stages include the processes of Recording and Reconciling.  All financial transactions and activities in the Bank is carried out and approved by employees acting within their range of knowledge and proper span of control. Proper authorization practices serve as a proactive approach for preventing invalid transactions from occurring. Policies and procedures within a bank should clearly identify which individuals have authority to initiate, submit, reconcile, view or approve different types of transactions. Therefore, this chapter establishes whether all financial transactions are properly authorised to avoid misallocation of funds at Equity Bank – Munuki.

# Effective System prevents and detects the misuse of funds

The study asked respondents whether the bank has an effective system prevents and detects the misuse of funds and their responses were, 12(17.9%) strongly disagreed, 6(9%) disagreed, 6(9%) were neutral, 31(46.3%) agreed and 12(17.9%) strongly agreed as presented in table 6.1.

# Table 6.1: Effective system prevents and and detects the misuse of funds

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 17.9 | 17.9 |
| Disagree | 6 | 9.0 | 26.9 |
| Neutral | 6 | 9.0 | 35.8 |
| Agree | 31 | 46.3 | 82.1 |
| Strongly Agree | 12 | 17.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 6.1 indicate that 33(64.2%) of the respondents agreed that the bank has an effective system prevents and detects the misuse of funds. This implies that the bank has internal controls systems in place that are used to manage risk and diminish the occurrence of fraud. However, 6(9%) were not sure and 18(26.9%) of the respondents disagreed. This means that even though there is an internal control system in place, there is still occurrence of misuse of funds in several departments. In an interview held with staff in accounting and finance department, they revealed that the internal control system of the Bank consists of the formal policies and procedures that ensure assets are properly used; accounting system is functioning properly; monitor operations of the organization to ensure maximum efficiency; assets are kept secure and employees are in compliance with corporate policies.

# All transations are made by authorised personnel

The study asked respondents whether all transactions are made by authorised personnel at Equity Bank – Munuki and their responses were 10(14.9%) strongly disagreed, 16(23.9%) disagreed, 3(4.5%) were neutral, 30(44.8%) agreed and 8(11.9%) strongly agreed as revealed in table 6.2.

# Table 6.2: All transations are made by authorised personnel

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 14.9 | 14.9 |
| Disagree | 16 | 23.9 | 38.8 |
| Neutral | 3 | 4.5 | 43.3 |
| Agree | 30 | 44.8 | 88.1 |
| Strongly Agree | 8 | 11.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Research findings in table 6.2 reveal that the majority 38(56.7%) of the respondents were in agreement that all transactions are made by only authorised personnel at Equity Bank–Munuki to ensure financial performance. They further revealed that it is important that the person who approves transactions have the authority to do so and the necessary knowledge to make informed decisions. Though, 3(4.5%) were not sure and 26(38.8%) of the respondents were in disagreement. Therefore, transactions should be authorized and approved to help ensure the activity is consistent with departmental or bank goals and objectives.

# The Bank has Financial Control in place

Financial controls are at the very core of resource management and operational efficiency in any organization. When respondents were asked whether the bank has financial control in place to ensure that all transactions are correctly calculated, recorded and processed and their responses were, 8(11.9%) strongly disagreed, 7(10.4%) disagreed, 7(10.4%) were neutral, 26(38.8%) agreed and 19(28.4%) strongly agreed as indicated in table 6.3.

# Table 6.3: The Bank has Financial Control in place

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 11.9 | 11.9 |
| Disagree | 7 | 10.4 | 22.3 |
| Neutral | 7 | 10.4 | 32.8 |
| Agree | 26 | 38.8 | 71.6 |
| Strongly Agree | 19 | 28.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to findings in table 6.3, the majority 45(67.2%) of the respondents were in agreement that the bank has financial control in place to ensure that all transactions are correctly calculated, recorded and processed. This is an implication that the bank has procedures, policies, and means by which monitors and controls the direction, allocation, and usage of its financial resources. However, 7(10.4%) were neutral and 15(22.3%) of the respondents were in disagreement. Therefore, the implementation of effective financial control policies should be done after a thorough analysis of the existing policies and future outlook of the bank.

# Adequate Skills and Knowledge in managing financial transactions

Effective financial transactions are vital for bank survival and growth. Respondents were asked whether all staff in financial departments has required adequate skills and knowledge in managing financial transactions and their responses were 8(11.9%) strongly disagreed, 9(13.4%) disagreed, 7(10.4%) were neutral, 32(47.8%) agreed and 11(16.4%) strongly agreed as indicated in table 6.4.

# Table 6.4: Adequate Skills in managing financial transactions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 11.9 | 11.9 |
| Disagree | 9 | 13.4 | 25.4 |
| Neutral | 7 | 10.4 | 35.8 |
| Agree | 32 | 47.8 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

From table 6.4, the majority 43(64.2%) of the respondents were in agreement that all staff in financial departments has required adequate skills and knowledge in managing financial transactions. This means that the majority of employees working with this department are consistent, timeliness, justified, and certified. However, 7(10.4%) were not sure and 17(25.4%) of the respondents were in disagreement. Therefore, staff should use financial transaction control procedures to help Equity Bank achieve its mission and strategic objectives by ensuring resources are effectively collected and used, and accurately accounted for to ensure financial performance.

# Internal control system provides transparency and efficiency

Internal controls are the physical elements, policies and practices a bank puts in place to protect the integrity of its assets and financial and accounting information, promote accountability and prevent fraud. The study asked whether internal control system in place provides transparency and efficiency to protect employees from accusations of irregularities or misappropriations of funds and their responses were, 8(11.9%) strongly disagreed, 10(14.9%) disagreed, 6(9%) were neutral, 23(34.3%) agreed and 20(29.9%) strongly agreed as presented in table 6.5.

# Table 6.5: Internal control system provides transparency and efficiency

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 11.9 | 11.9 |
| Disagree | 10 | 14.9 | 26.8 |
| Neutral | 6 | 9.0 | 35.8 |
| Agree | 23 | 34.3 | 70.1 |
| Strongly Agree | 20 | 29.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 6.5 indicate that the majority 43(64.2%) of the respondents were in agreement that internal control system in place provides transparency and efficiency to protect employees from accusations of irregularities or misappropriations of funds. Though, 6(9%) were not sure and 18(26.8%) of the respondents were in disagreement. Therefore, the purpose of any control system in Equity Bank-Munuki should provide reasonable assurance that the bank can meet its objectives.

# The Bank has Anti Fraud Unit to monitor all financial services

Respondents were asked whether Equity Bank- Munuki has anti-fraud unit to monitor all financial services conducted within and their responses were; 11(16.4%) strongly disagreed, 8(11.9%) disagreed, 6(9%) were neutral, 25(37.3%) agreed and 17(25.4%) strongly agreed as indicated in table 6.6.

# Table 6.6: The Bank has Anti Fraud Unit to monitor all financial services

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 8 | 11.9 | 28.4 |
| Neutral | 6 | 9.0 | 37.3 |
| Agree | 25 | 37.3 | 74.6 |
| Strongly Agree | 17 | 25.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 6.6 present that 42(62.7%) of the respondents agreed that Equity Bank- Munuki has Anti-Fraud Unit to monitor all financial services conducted within. This implies that Bank has a dedicated unit in each business line to ensure operating processes and procedures are acted according to existing Standard Operating Procedures (SOP).This Unit conducts investigation of any indicated fraud segregated by threshold amount. In an interview with some staff in Anti Fraud Unit, “*they stated that Equity Bank also has fraud report system to record each and every fraud case”*. However, 6(9%) were not sure and 19(28.4%) of the respondents were in disagreement. This means that even though the bank has this Unit, it was revealed that the bank still facing several frauds cases.

# The Bank has Financial Risk Management System

The study asked respondents whether the Bank has Financial Risk Management System to monitor and evaluate market risk and credit risk and their responses were; 7(10.4%) strongly disagreed, 21(31.3%) disagreed, 9(13.4%) were neutral, 24(35.8%) agreed and 6(9%) strongly agreed as presented in table 6.7.

# Table 6.7: The Bank has Financial Risk Management System

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 10.4 | 10.4 |
| Disagree | 21 | 31.3 | 41.8 |
| Neutral | 9 | 13.4 | 55.2 |
| Agree | 24 | 35.8 | 91.0 |
| Strongly Agree | 6 | 9.0 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to research findings in table 6.7, the majority 30(43.8%) of the respondents were in agreement that Equity Bank has Financial Risk Management System to monitor and evaluate market risk and credit risk. This is a clear indication that there isa financial risk management system that manages exposure to various types of risk for the bank by conducting in-depth analysis, generating reports, and simulating investment scenarios. Yet, 9(13.4%) were not sure and 28(41.8%) of the respondents disagreed. This means that even though the bank has this system, but the bank still face financial risks. Therefore, financial risk management system should be used by financial services professionals to identify risk, measure the amount of risk, and generate plans to deal with the risk.

# All Financial transactions are properly reported and recorded

On the question whether all financial transactions are properly reported and recorded and their responses were; 11(16.4%) strongly disagreed, 8(11.9%) disagreed, 4(6%) were neutral, 23(34.3%) agreed and 21(31.3%) strongly agreed as summarised in table 6.8.

# Table 6.8: All Financial transactions are properly reported and recorded

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 8 | 11.9 | 28.4 |
| Neutral | 4 | 6.0 | 34.3 |
| Agree | 23 | 34.3 | 68.7 |
| Strongly Agree | 21 | 31.3 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 6.8 present that 44(65.6%) of the respondents were in agreement that all financial transactions are properly reported and recorded. The goal of proper financial transactions reporting and recording is to record and provide details of all the bank’s financial transactions in a comprehensive way that provides useful information without being overwhelming. However, 4(6%) were neutral and 19(28.4%) of the respondents were in disagreement. Therefore, the bank should have a financial record system tohelp the Management Team and Board members manage bank resources more profitably and efficiently.

# Segregation of responsibilities is used to safeguard financial records

The segregation of duties is a fundamental element of internal controls. Respondents were asked whether all segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank-Munuki and their responses were; 9(13.4%) strongly disagreed, 9(13.4%) were neutral, 32(47.8%) agreed and 11(16.4%) strongly agreed as shown in table 6.9.

# Table 6.9: Segregation of responsibilities safeguard financial records

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 13.4 | 13.4 |
| Disagree | 9 | 13.4 | 26.8 |
| Neutral | 6 | 9.0 | 35.8 |
| Agree | 32 | 47.8 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 6.9 indicate that 43(64.2%) of the respondents were in agreement that all segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank-Munuki. Segregation of duties is a key issue for the Bank to ensure compliance with financial laws and regulations. In an interview held with staff in auditing department, they stated that “s*egregation of duties is ensuring internal controls are present to distribute duties of a task across several departments to avoid any security flaw due to human error or intentional fraudulent activities in the Bank*”. Despite the fact that, 6(9%) were neutral and 18(26.8%) of the respondents disagreed. This means that even though responsibilities are segregated, it was discovered that some financial and accounting records are still poorly kept.

# Each department of the Bank has its own budget to cover its sphere

Respondents were asked whether each department of the Bank has its own budget to cover its own sphere of activity and responsibility to prevent misuse of funds and their responses were; 20(29.9%) strongly disagreed, 15(22.4%) disagreed, 4(6%) were neutral, 22(32.8%) agreed and 6(9%) strongly agreed as revealed in table 6.10.

# Table 6.10: Each department has its own budget to cover its sphere

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 20 | 29.9 | 29.9 |
| Disagree | 6 | 9.0 | 38.9 |
| Neutral | 4 | 6.0 | 44.9 |
| Agree | 22 | 32.8 | 77.7 |
| Strongly Agree | 15 | 22.3 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Study findings in table 6.10 present that the majority 37(55.1%) of the respondents were in agreement that each department of the Bank has its own budget to cover its own sphere of activity and responsibility to prevent misuse of funds. Budgets have become essential tools of the management for controlling misuse of finances and maximising profit for the bank. Yet, 4(6%) were neutral and 26(38.9%) of the respondents were in disagreement. This implies that some departments do not adequate dexterities in preventing misuse of funds.

# TESTING HYPOTHESIS 2

There is significant relationship between proper authorization of financial transactions to avoid misallocation of funds and financial performance at Equity Bank – Munuki or not. The hypothesis was tested with Pearson Correlation and regression analyses were used to test the hypothesis and the results are as shown below.

# Correlations between authorization of financial transactions and financial performance

Correlation results revealed that there is a significant and positive relationship between proper authorization of financial transactions to avoid misallocation of funds and financial performance at Equity Bank - Munuki, (r=.794, P<0.005). This means that the Bank has an effective system prevents and detects the misuse of funds. The bank has financial controls in place to ensure that all transactions are correctly calculated, recorded, and processed.

# Table 6.11: Correlations between Authorization of Financial Transactions and Financial Performance.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | Authorization of financial transactions | Financial Performance |
| Authorization of financial transactions | Pearson Correlation | 1 | .794\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 67 | 67 |
| Financial Performance | Pearson Correlation | .794\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 67 | 67 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

# Model Summary

The model summary reflected in table 6.12 below indicate *R* square = 0.630 or 63%. The observed value of 0.794 or 79.4% is significant; this means that all transactions are made by authorised personnel; there is also anti-fraud unit to monitor all financial services conducted in the bank. The Adjusted R2 (.631) is the percentage of the variability in the Equity Bank-Munuki financial performance that explain the linear regression. The result shows that internal control system in place provides transparency and efficiency, to protect employees from accusations of irregularities or misappropriations of funds, thus improved financial performance.

# Table 6.12: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .794a | .630 | .631 | .63909 |
| a. Predictors: (Constant), Authorization of Financial Transactions | | | | |

# ANOVA

The analysis-of-variance (ANOVA) table 6.13 was used to test the equivalent positive hypothesis, the F=5309.497, p<0.05 there is linear relationship between independent variable and the dependent variable. The result indicates that authorization of financial transactions to avoid misallocation of funds enhances financial performance in Equity Bank - Munuki.

# Table 6.13: ANOVAa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 2168.614 | 1 | 2168.614 | 5309.497 | .000b |
| Residual | 26.549 | 65 | .408 |  |  |
| Total | 2195.163 | 66 |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | | |
| b. Predictors: (Constant), Authorization of Financial Transactions | | | | | | |

# Coefficients

In table 6.14, Financial Performance was used as the dependent variable and Risk Assessment as independent variable. It was established that Authorization of Financial Transactions(ß=0.794, t=62.866, P<0.05), this indicates that segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank- Munuki, hence improved its financial performance.

# Table 6.14: Coefficientsa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .270 | .215 |  | .790 | .432 |
| Authorization of Financial Transactions | .437 | .006 | .794 | 62.866 | .000 |
| a. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER SEVEN

# INTERNAL CONTROLS COVER BOTH THE FINANCIAL AND NON-FINANCIAL RESOURCES OF EQUITY BANK-MUNUKI TO ENSURE EFFECTIVE FINANCIAL PERFORMANCE

# Introduction

This chapter presents analysis and interpretation of findings on the third objective of the study which sought to establish whether internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance. In order to verify this objective descriptive statistics such as frequency tables, model summary, Pearson correlation, regressions such as Analysis of Variances (ANOVA), and coefficient were used to analyse data. Respondents were asked several questions in regard to the first objective and the results were presented, analyzed and interpreted as shown below.

In banking sector, a financial asset is a liquid asset that gets its value from a contractual right or ownership claim. Cash, stocks, bonds, mutual funds, and bank deposits are all are examples of financial assets.

A non-financial asset refers to an asset that is not traded on the financial markets, and its value is derived from its physical characteristics rather than from contractual claims. Examples of non-financial assets include tangible assets such as land, property commodities and equipment. Therefore, this chapter establishes how internal controls cover both the financial and non-financial aspects of Equity Bank-Munuki to ensure effective financial performance.

# Internal Controls Safeguard the Resources

The study asked whether internal control have helped the Bank management to safeguard the resources, produce reliable financial reports and comply with laws and regulations and their responses were; 9(13.4%) strongly disagreed, 12(17.9%) disagreed, 7(10.4%) were neutral, 23(34.3%) agreed and 16(23.9%) strongly agreed as summarised in table 7.1.

# Table 7.1: Internal Controls safeguard the Resources

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 9 | 13.4 | 13.4 |
| Disagree | 12 | 17.9 | 31.3 |
| Neutral | 7 | 10.4 | 41.8 |
| Agree | 23 | 34.3 | 76.1 |
| Strongly Agree | 16 | 23.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to findings in table 7.1, the majority 39(58.2%) of the respondents were in agreement that internal control have helped the Bank management to safeguard the resources, produce reliable financial reports and comply with laws and regulations. This implies that well designed internal controls protect Equity Bank assets from accidental loss or loss from fraud. The bank has internal control system that consists of the formal policies and procedures used to ensure assets are properly used in Equity Bank-Munuki. However, 7(10.4%) were not sure and 21(31.3%) of the respondents were in disagreement. Therefore, good internal controls should help Equity Bank-Munuki ensure efficient and effective operations that accomplish the goals of the unit and still protect employees and assets.

# Internal Controls system in place have protected physical assets

Internal controls are the physical elements, policies and practices a bank put in place to protect the integrity of its assets. Respondents were asked whether internal control systems have protected physical assets and ensure integrity of accounting practices in Equity Bank-Munuki and their responses were; 10(14.9%) strongly disagreed, 13(19.4%) disagreed, 7(10.4%) were neutral, 17(25.4%) agreed and 20(29.9%) strongly agreed as indicated in table 7.2.

# Table 7.2: Internal Controls in place have protected physical assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 14.9 | 14.9 |
| Disagree | 13 | 19.4 | 34.3 |
| Neutral | 7 | 10.4 | 44.8 |
| Agree | 17 | 25.4 | 70.1 |
| Strongly Agree | 20 | 29.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 7.2 reveals that 37(55.3%) of the respondents were in agreement that internal control systems have protected physical assets and ensure integrity of accounting practices in Equity Bank-Munuki. This is an implication that available internal controls ensure employees comply with all laws and regulations and do not steal bank assets. Physical controls like door locks, area restrictions, safes and surveillance equipment are in place to avoid misuse of assets. Nevertheless, 7(10.4%) were not sure and 23(34.3%) of the respondents disagreed. This means that some workers failed to protect physical assets, though the bank has effective internal control system in place.

# Implemented internal controls help in measuring performance

Internal controls provide cohesion and consistency to establish order and protocol within a business. When respondents were asked whether implemented internal controls have helped managers and supervisors to measure performance, make decisions, evaluate processes and limit risks at Equity Bank-Munuki and their responses were; 13(19.4%) strongly disagreed, 10(14.9%) disagreed, 12(17.9%) were neutral, 23(34.3%) agreed and 9(13.4%) strongly agreed as shown in table 7.3.

**Table 7.3: Implemented internal controls help in measuring performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.4 | 19.4 |
| Disagree | 10 | 14.9 | 34.3 |
| Neutral | 5 | 7.5 | 41.8 |
| Agree | 23 | 34.3 | 76.1 |
| Strongly Agree | 16 | 23.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to findings in table 7.3, the majority 39(58.2%) of the respondents were in agreement that implemented internal controls have helped managers and supervisors to measure performance, make decisions, evaluate processes and limit risks at Equity Bank-Munuki. This implies that bank establishes internal controls as a measure against wrongdoing and as a tool to protect the bank's interests. However, 5(7.5%) were not sure and 23(34.3%) of the respondents were in disagreement. Internal controls help management monitor employee effectiveness and make effective decision making.

# Bank close dormant accounts and reconcile all active accounts regularly

Respondents were asked whether to eliminate opportunities for bank-related fraud, the bank management closes any dormant account immediately and reconciles all active accounts and their responses were; 8(11.9%) strongly disagreed, 9(13.4%) disagreed, 8(11.9%) were neutral, 28(41.8%) agreed and 14(20.9%) strongly agreed as revealed in table 7.4.

# Table 7.4: Bank close dormant accounts and reconcile all active accounts

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 8 | 11.9 | 11.9 |
| Disagree | 9 | 13.4 | 25.3 |
| Neutral | 8 | 11.9 | 37.3 |
| Agree | 28 | 41.8 | 79.1 |
| Strongly Agree | 14 | 20.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 7.4 presents that the majority 42(62.7%) of the respondents agreed that to eliminate opportunities for bank-related fraud, the bank management closes any dormant account immediately and reconciles all active accounts. They revealed that the banking software systems code an account as dormant after about a year of inactivity. Though, 8(11.9%) were not sure and 17(25.3%) of the respondents disagreed. This was an indication that Dormant Account Reports are not properly reviewed, thus the activity in the accounts are not reviewed. Therefore, Equity Bank-Munuki should ensure consider reviewing a report of accounts approaching dormancy, as these could sometimes be a better fraud target than a truly dormant account.

# Regular scheduled inspection and routine maintenance of bank assets

The study asked whether there is regular scheduled inspections and routine maintenance of bank assets like equipments, vehicles and buildings, their responses were; 10(14.9%) strongly disagreed, 9(13.4%) disagreed, 5(7.5%) were neutral, 31(46.3%) agreed and 12(17.9%) strongly agreed as shown in table 7.5.

# Table 7.5: Regular scheduled inspection and routine maintenance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 14.9 | 14.9 |
| Disagree | 9 | 13.4 | 28.4 |
| Neutral | 5 | 7.5 | 35.8 |
| Agree | 31 | 46.3 | 82.1 |
| Strongly Agree | 12 | 17.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 7.5 presents that 43(64.2%) of the respondents agreed that there is regular scheduled inspections and routine maintenance of bank assets like equipments, vehicles and buildings. This is evidence that Equity Bank Munuki perform a planned and ongoing basis to identify and prevent problems before they result in assets failure. They further revealed that routine maintenance decrease downtime and lengthen the lifespan of equipments when used in conjunction with a well-planned preventive maintenance program. However, 5(7.5%) were not sure and 19(28.4%) of the respondents disagreed. This implies that some department fails to do thorough checkups on equipments like computers and vehicles, which result into low or sluggish performance.

# Bank use an assets register to list each asset

An asset register is a complete listing of a business' or an entity's physical resources. When respondents were asked whether Equity Bank-Munuki use an asset register to list each asset with an ID number and their responses were; 11(16.4%) strongly disagreed, 9(13.4%) disagreed, 6(9%) were neutral, 30(44.8%) agreed and 11(16.4%) strongly agreed as indicated in table 7.6.

# Table 7.6: Bank use an assets register to list each asset

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 9 | 13.4 | 29.8 |
| Neutral | 6 | 9.0 | 38.8 |
| Agree | 30 | 44.8 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 7.6 indicates that 41(61.2%) of the respondents were in agreement that Equity Bank-Munuki use an asset register to list each asset with an ID number. This means that asset register enable the bank to know the status, procurement date, location, price, depreciation, and the current value of each asset.. Yet, 6(9%) were not sure and 20(29.8%) of the respondents were in disagreement. This indicates that all bank assets are not listed in the register for easy monitoring and usage evaluation. Therefore, the Finance/Accounts manager should ensure that all the assets are tagged with identification codes.

# Only authorised personnel access cash restricted areas or safes

The study asked whether the only authorised personnel access cash restricted areas or safes at Equity Bank - Munuki and their responses were; 13(19.4%) strongly disagreed, 9(13.4%) disagreed, 29(43.3%) agreed and 11(16.4%) strongly agreed as presented in table 7.7.

# Table 7.7: Only authorised personnel access cash restricted areas or safes

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 13 | 19.4 | 19.4 |
| Disagree | 9 | 13.4 | 32.8 |
| Neutral | 5 | 7.5 | 40.3 |
| Agree | 29 | 43.3 | 83.6 |
| Strongly Agree | 11 | 16.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 7.7 reveals that the majority 40(59.7%) of the respondents were in agreement that only authorised personnel access cash restricted areas and safes or vaults at Equity Bank – Munuki. This implies that the bank has a set of stringent guidelines to prevent unauthorised access to restricted areas. Though, 5(7.5%) were not sure and 22(32.8%) of the respondents were in disagreement. Therefore, access to cash handling and storage areas should be physically restricted to authorized personnel. Where possible, cash deposit preparation areas should be both physically and visually restricted to an authorized personnel.

# Internal Control increase financial reliability and integrity

The study asked whether internal controls have increased financial reliability and integrity of Equity Bank – Munuki and their responses were; 10(14.9%) strongly disagreed, 10(14.9%) disagreed, 5(7.5%) were neutral, 22(32.8%) agreed and 20(29.9%) strongly agreed as indicated in table 7.8.

# Table 7.8: Internal Control increase financial reliability and integrity

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 10 | 14.9 | 14.9 |
| Disagree | 10 | 14.9 | 29.9 |
| Neutral | 5 | 7.5 | 37.3 |
| Agree | 22 | 32.8 | 70.1 |
| Strongly Agree | 20 | 29.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Research findings in table 7.8 present that the majority 42(62.7%) of the respondents were in agreement that internal controls have increased financial reliability and integrity of financial information in Equity Bank – Munuki. This is evidence that internal controls ensure that the management has accurate, timely and complete information, including accounting records, in order to plan, monitor and report bank operations. Nevertheless, 5(7.5%) were not sure and 20(29.9%) of the respondents disagreed. Therefore, finance department should provide internal control mechanism for management to monitor and evaluate the operations of the bank to ensure improved financial performance.

# Internal Control is monitored on an ongoing basis

Monitoring internal controls is essential to ensure controls are operating efficiently. Respondents were asked whether the overall effectiveness of the bank’s internal controls is monitored on an ongoing basis to ensure effective financial performance and their responses were; 7(10.4%) strongly disagreed, 8(11.9%) disagreed, 7(10.4%) were neutral, 27(40.3%) agreed and 18(26.9%) strongly agreed as presented in table 7.9.

# Table 7.9: Internal Control is monitored on an ongoing basis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 10.4 | 10.4 |
| Disagree | 8 | 11.9 | 22.3 |
| Neutral | 7 | 10.4 | 32.8 |
| Agree | 27 | 40.3 | 73.1 |
| Strongly Agree | 18 | 26.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

According to findings in table 7.9, 45(67.2%) of the respondents generally agreed that the overall effectiveness of the bank’s internal controls is monitored on an ongoing basis to ensure effective financial performance. It was discovered that monitoring involves the use of evaluations by the management and third-parties of the controls in bank to identify issues and communicate these issues to the appropriate parties for corrective action to be taken, thus improved financial performance. However, 7(10.4%) were not sure and 15(22.3%) of the respondents were in disagreed. This means that sometime internal controls in place are not measured. Therefore, the bank should maintain competent monitoring system to resolve issues timely and efficiently.

**FINANCIAL PERFORMANCE**

This section presents the analysis of the collected data, the results and the interpretation of the findings on the dependent variable. Tables with frequencies and percentages are presented to illustrate the analysis and interpretation of the data.

**Proper financial accountability led to effective financial performance**

Respondents were asked whether proper financial accountability led to financial performance at Equity Bank-Munuki and their responses were; 14(20.9%) strongly disagreed, 15(14.9%) disagreed, 20(29.9%) agreed and 18(26.9%) strongly agreed as presented in table 7.10.

**Table 7.10: Proper financial accountability**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 14 | 20.9 | 20.9 |
| Disagree | 15 | 22.3 | 43.2 |
| Agree | 20 | 29.9 | 73.1 |
| Strongly Agree | 18 | 26.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 7.10 indicates that 38(56.7%) of the respondents agreed that proper financial accountability led to effective financial performance. This means that there are responsible means in place for utilizing and managing finances of the bank. Though, 24(43.3%) of the respondents disagreed. Therefore, it is important that those staff given responsibility to the treasury set up good financial accountability mechanisms to ensure effectual financial performance at Equity Bank-Munuki.

**Equity Bank-Munuki has proper financial reporting**

Financial reporting is the disclosure of financial results to stakeholders about how a company is performing over time. The study asked whether Equity Bank-Munuki has proper financial reporting to enhance its financial performance and their responses were; 12(17.9%) strongly disagreed, 14(20.9%) disagreed, 6(9%) were neutral, 18(26.9%) agreed and 17(25.7%) strongly agreed as indicated in table 7.11.

**Table 7.11: Equity Bank-Munuki has proper financial reporting**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 17.9 | 17.9 |
| Disagree | 14 | 20.9 | 38.8 |
| Neutral | 6 | 9.0 | 47.8 |
| Agree | 18 | 26.9 | 74.7 |
| Strongly Agree | 17 | 25.7 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Findings in table 7.11 present that 35(52.6%) of the respondents agreed that EB-Munuki has proper financial reporting to enhance its financial performance. They revealed that the bank has standard accounting practice that uses financial statements to disclose its financial information and performance over a particular period, usually on an annual or quarterly basis. However, 6(9%) were not sure and 26(38.8%) of the respondents disagreed. This means that sometime this branch fail to track, analyse and report income as expected. *In an interview held with some of the staff in internal audit department, it was discovered that the main purpose of the financial reporting is to examine resource usage, cash flow, performance and the financial health of the bank.*

**Increased financial transparency**

Transparency is a disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, risk profile and risk management practices. The study asked whether there is increased financial transparency in all sectors of Equity Bank-Munuki to ensure financial performance and their responses were; 11(16.4%) strongly disagreed, 8(11.9%) disagreed, 6(9%) were neutral, 23(34.3%) agreed and 19(28.4%) strongly agreed as presented in the table 7.12.

**Table 7.12: Increased financial transparency**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 11 | 16.4 | 16.4 |
| Disagree | 8 | 11.9 | 28.3 |
| Neutral | 6 | 9.0 | 37.3 |
| Agree | 23 | 34.3 | 71.6 |
| Strongly Agree | 19 | 28.4 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Result of findings in table 7.12 indicates that the majority 32(62.7%) of the respondents generally agreed that there is increased financial transparency in all sectors of Equity Bank-Munuki to ensure financial performance. They divulge that there is clear access and proper disclosure of financial information, such as EB-Munuki's audited financial reports. Though 6(9%) were not sure on the statement and 19(28.3%) of the respondents were in disagreement. Therefore, accounting reports need to be transparent so that stakeholders and investors easily understand bank's financial details.

**Increased profits due to the effective internal control system in place**

Internal control is all of the policies and procedures management uses to achieve various organization goals. When respondents were asked whether the bank has increased its profits due to the effective internal control system in place, their responses were; 12(17.9%) strongly disagreed, 9(13.4%) disagreed, 7(10.4%) were neutral, 25(37.3%) agreed and 25(20.9%) strongly agreed as revealed in table 7.13.

**Table 7.13: Increased profits due to the effective ICS in a place**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 12 | 17.9 | 17.9 |
| Disagree | 9 | 13.4 | 31.3 |
| Neutral | 7 | 10.4 | 41.7 |
| Agree | 25 | 37.3 | 79.1 |
| Strongly Agree | 14 | 20.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Table 7.13 indicate that 39(58.2%) of the respondents were in agreement that the bank has increased its profits due to the effective internal control system in place. This means that current internal control system has the bank to ensure that the activities are carried out in an orderly and efficient manner, adhering to management, safeguard the bank assets and securing the completeness and accuracy of records, thus improved profitability. On the other hand, 7(10.4%) were neutral and 21(31.3%) of the respondents were in disagreement. This indicates that some of the internal control or policies are not well complied with.

**Proper financial controls in place**

Financial controls are at the very core of resource management and operational efficiency in any organization. On the question whether Equity Bank – Munuki has proper financial controls in place to ensure financial performance, their responses were 7(10.4%) strongly disagreed, 8(11.9%) disagreed, 7(10.4) were neutral, 27(40.3%) agreed and 18(26.9%) strongly agreed as shown in the table 7.14.

**Table 7.14: Proper financial control**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 7 | 10.4 | 10.4 |
| Disagree | 8 | 11.9 | 22.3 |
| Neutral | 7 | 10.4 | 32.8 |
| Agree | 27 | 40.3 | 73.1 |
| Strongly Agree | 18 | 26.9 | 100.0 |
| Total | 67 | 100.0 |  |

Source: Field Data (2021)

Out of 67 respondents involved in the study, 45(67.2%) of the respondents were in agreement that Equity Bank – Munuki has proper financial controls in place to ensure financial performance. This shows that the bank has procedures, policies and means by which the bank monitors and controls the direction, allocation and usage of its financial resources. Though, 7(10.4%) were not sure and 14(22.3%) were in disagreement. Therefore, the implementation of effective financial control policies should be done after a thorough analysis of the existing policies and future outlook of the bank.

**TESTING HYPOTHESIS 3**

There is significant relationship between financial and non-financial resources and financial performance or not in Equity Bank-Munuki. The hypothesis was tested with Pearson Correlation and regression analyses were used to test the hypothesis and the results are as shown below.

# Correlations

Correlation results revealed that there is a significant relationship between financial and non-financial resources and financial performance in Equity Bank-Munuki, (r=.790, P<0.05). Results revealed that internal controls have helped the Bank management to safeguard the resources, produce reliable financial reports, and comply with laws and regulations. Internal controls have protected financial and physical assets to ensure the integrity of accounting practices in Equity Bank- Munuki, thus improved financial performance.

# Table 7.15: Correlations between financial and non-financial resources and financial performance

|  |  |  |  |
| --- | --- | --- | --- |
|  | | Financial and non-financial resources | Financial Performance |
| Financial and non-financial resources | Pearson Correlation | 1 | .790\*\* |
| Sig. (2-tailed) |  | .000 |
| N | 67 | 67 |
| Financial Performance | Pearson Correlation | .790\*\* | 1 |
| Sig. (2-tailed) | .000 |  |
| N | 67 | 67 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | |

# Model Summary

The model summary reflected in table 7.16 below show *R* square = 0.790 or 79%. The observed value of 0.79 or 79% is significant and positive; this means that there is regular scheduled inspections and routine maintenance of financial and non financial assets like finances, equipments, vehicles and building, among others. The Adjusted R2 (.626) is the percentage of the variability in the Bank financial performance that explain the linear regression. The result shows that internal controls cover both financial and non-financial resources of equity bank Munuki Branch to ensure effective financial performance.

# Table 7.16: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .790a | .624 | .626 | .61561 |
| a. Predictors: (Constant), Financial and Non-Financial Assets | | | | |

# 

# ANOVA

The analysis-of-variance (ANOVA) table 7.17 was used to test the equivalent positive hypothesis, the F=3234.875, p<0.05 there is linear relationship between independent variable and the dependent variable. The result indicates that effective internal control system covers both financial and non-financial assets of Equity Branch-Munuki.

# Table 7.17: ANOVAa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 2151.923 | 1 | 2151.923 | 3234.875 | .000b |
| Residual | 43.240 | 65 | .665 |  |  |
| Total | 2195.163 | 66 |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | | |
| b. Predictors: (Constant), Financial and Non-Financial Assets | | | | | | |

# Coefficients

In table 7.18, Financial Performance was used as the dependent variable and monitoring of activities as independent variable. It was established that Financial and Non-Financial Assets(ß=0.790, t=56.876, P<0.05), this indicates that internal controls have protected both financial and physical assets to ensure the integrity of accounting practices in Equity Bank- Munuki, thus improved financial performance.

# Table 7.18: Coefficients

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .603 | .263 |  | 2.293 | .025 |
| Financial and Non-Financial Assets | .470 | .008 | .790 | 56.876 | .000 |
| a. Dependent Variable: Financial Performance | | | | | | |

# CHAPTER EIGHT

# HARMONIZATION TOWARDS IMPROVING INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE IN EQUITY BANK- MUNUKI

# Introduction

This chapter focuses on means and ways towards improving internal control systems and financial performance in commercial banks in South Sudan.

# Internal Control Systems

Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Internal controls are the systems used by an organization to manage risk and diminish the occurrence of fraud. The internal control structure is made up of the control environment, the accounting system, and procedures called control activities(Jack, 2017).

Will Kenton (2019) emphasizes that internal controls are typically comprised of control activities such as authorization, documentation, reconciliation, security, and the separation of duties. And they are broadly divided into preventative and detective activities.

He further states that preventive control activities aim to deter errors or fraud from happening in the first place and include thorough documentation and authorization practices. Separation of duties, a key part of this process, ensures that no single individual is in a position to authorize, record, and be in the custody of a financial transaction and the resulting asset. Authorization of invoices and verification of expenses are internal controls. In addition, preventative internal controls include limiting physical access to equipment, inventory, cash, and other assets.

Detective controls are backup procedures that are designed to catch items or events that have been missed by the first line of defense. Here, the most important activity is reconciliation, used to compare data sets, and corrective action is taken upon material differences (Will Kenton, 2019). Other detective controls include external audits from accounting firms and internal audits of assets such as inventory.

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization’s transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources. Internal Controls are processes designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Mwindi, 2008). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. “The likelihood of achievement is affected by limitations inherent in all systems of internal control” (Hayes et al., 2005).

# Compliance withAccounting Regulations and Procedures in Commercial Banks

Compliance with accounting regulations and procedures in Banks is designed to provide an overview of the internal guidelines, statutory and regulatory stipulations in force that regulate the financial environment with special reference to banks operating.

Compliance with accounting regulations and procedures by commercial banks ensures the quality of reporting, because the standards provide a framework for the reporting of operations. The importance of accounting regulations and procedures is that it makes the work of investors, auditors, and decision-makers easier and fairer across the board. Critical decisions for a bank’s future can be made in a more uniform way.

Compliance starts at the top. It will be most effective in a corporate culture that emphasises standards of honesty and integrity and in which the board of directors and senior management lead by example. It concerns everyone within the bank and should be viewed as an integral part of the bank’s business activities. A bank should hold itself to high standards when carrying on business and at all times strives to observe the spirit as well as the letter of the law. Failure to consider the impact of its actions on its shareholders, customers, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken.

In banking industry, accounting regulations and procedures are developed to ensure a transparent system in a bank. The principles and procedures of accounting are made with a purpose that information can be open to observers. In case of public systems, trusts, and government companies, transparency and openness is very important. Standards put a limit on organizations to use ingenious accounting to move items around.

Complete Controller (2020) avows that accounting regulations and procedures in commercial banks give an insight into the most appropriate information in the most rational way. Banks which comply and follow clear, uniform, and transparent accounting information attract more investors. Observers of such information can make rational decisions about a bank. Regulations and procedures of accounting put a limit on banks so that they cannot hide the financial status of a bank from observers. Stakeholders and investors can access fair information related to accounting data and make better decisions jointly (Complete Controller, 2020). Potential investors can study open accounting policies to decide if they will invest in a business or not.

Boone (2018) affirms that the Bank Policies and Procedures Manual should be structured to meet the needs of different users from policy and procedure developers to those supervising or evaluating the work of others. Policy and procedure developers will find that this book will help them to organize their approach to bank policy and to ensure that specific areas are covered and analyzed during the policy and procedure development process.

Dutton (2019) argues that the banking compliance policy is a set of procedures that includes the guidelines to be followed, the definition of responsibilities and personnel in charge, as well as the means of communication between staff and senior management. To implement banking compliance, the entire culture of the institution needs to be changed so that tighter and safer controls are adopted. It is best indicated that senior management is responsible for spreading the culture of compliance, as well as adapting the company and providing the necessary tools for risk and compliance management. Therefore, this policy should be structured taking into account the risks of the area of operation, the size of the financial institution and the complexity of the information that is received, processed and treated.

In line with Kenton Will’s argument (2019), internal audits evaluate a bank’s internal controls, including its corporate governance and accounting processes. They ensure compliance with laws and regulations and accurate and timely financial reporting and data collection, as well as helping to maintain operational efficiency by identifying problems and correcting lapses before they are discovered in an external audit. Internal audits play a critical role in a bank’s operations and corporate governance, now that the Sarbanes-Oxley Act of 2002 has made managers legally responsible for the accuracy of its financial statements.

Compliance should be part of the culture of the bank; it is not just the responsibility of specialist compliance staff. Nevertheless, a bank will be able to manage its compliance risk more effectively if it has a compliance function in place that is consistent with the “compliance function principles” discussed below. The expression “compliance function” is used in this paper to describe staff carrying out compliance responsibilities; it is not intended to prescribe a particular organisational structure.

In any bank, the compliance department is the body responsible for ensuring the institution as a whole remains compliant. Its goal is defined, and it is to ensure the bank functions within regulation, thus preserving its integrity and reputation in the industry.

Generally speaking, financial institutions should put in place bank regulatory compliance policies and procedures to protect consumers and manage their risks. Banks must have “reasonable policies and procedures concerning the accuracy and integrity of furnished information” that gets sent to credit bureaus (PowerDMS, 2020). So compliance policies and procedures address not only what information banks submit to credit bureaus, but also how accurate it needs to be and the integrity of that data.

# Proper Authorization of Financial Transactions to avoid misallocation of funds in Commercial Banks

In banking industry, authorization is the basis by which the authority to complete the various stages of a transaction is delegated. These stages include the processes of Recording (initiate, submit, process), Approving (pre-approval, post entry review), and Reconciling.

All financial transactions and activities should be carried out and approved by employees acting within their range of knowledge and proper span of control. Proper authorization practices serve as a proactive approach for preventing invalid transactions from occurring.

Stanley (2017) emphasizes that policies and procedures within an organization should clearly identify which individuals have authority to initiate, submit, reconcile, view or approve different types of financial transactions. Employees should be properly trained and informed of departmental procedures related to internal controls.

All receipts, disbursements and transfers that are ultimately recorded in a bank activity/project, regardless of funding source. Transaction data and supporting documents may be maintained in electronic and/or hard copy form. Examples of such documentation might include authorizations and requests relating to bank accounts, payrolls, requisitions and purchase orders, travel payment requests and expense reimbursements, petty cash reimbursement requests, journal entries, fund transfers, bank orders, and other similar documents and transactions (Bank of Utah, 2018).

Financial transactions wherein an individual requests payment to himself or herself for services rendered or for reimbursement of expenses (including petty cash) will require the approval of the next higher financial officer or authorized alternate (Bank of Utah, 2018). Payment or reimbursements to the president shall be reviewed by the Bank’s internal auditor, who will summarize and provide a periodic report to the Audit Committee of the Bank’s Board of Trustees in a format approved by the Audit Committee.

Individuals should have firsthand knowledge of the financial transactions being approved, or they should review supporting documentation to verify the validity and appropriateness of transactions. An employee being uninformed of their responsibilities related to departmental procedures is not acceptable in a good internal control system (Salim, 2016).

Salim further states that many falsifications occur after the approval of a transaction. The workflow process should stress timely authorizations as well as timely processing of transactions following approval. Once a document has been approved it should not be returned to the preparer.

All Bank financial transactions require authorization by the AE or PI responsible person, a supervisory officer above the account executive or principal investigator responsible person (department chair head, dean, director, etc.), or an authorized alternate. Transactions submitted to central administrative departments without appropriate authorization may be returned to the initiating department and not processed. Such transactions may be resubmitted when the authorization is obtained (Bank of Utah, 2018). Validation of transactions requiring AEs, PIs and authorized alternate require responsible persons to capture signatures and manage appropriate designations using the Granting Financial Authority (GFA) application. GFA is available through the “employee” tab of the Bank Information System, under the heading Financial & Business Services/Processing.

Harris (2015) states that designations of authorized alternates shall be made and verified using GFA whenever possible, delegation to alternates for roles or responsibilities not defined within GFA may be made in a memo on business letterhead addressed to the Chief Administrative Officer. Memos of authority delegation should contain effective dates where appropriate.

Jeffrey (2016) reported that a key element in the Bank's system for maintaining control is review and approval of the monthly accounting statements. The statements should be reviewed and approved by the AE/PI, or by an approved alternate separate from the individual(s) who initiate transactions. The AE or PI should not seek to delegate this function, and may do so only when there is no practical alternative. If review and approval authority must be delegated, it is imperative that the AE or PI remain sufficiently involved to be knowledgeable about financial matters and exert meaningful oversight.

# Internal Controls cover both the Financial and Non-financial Resources

Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud (Jack Money,2017). Besides complying with laws and regulations and preventing employees from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting.

Different banks face different types of risk, but when internal control systems are lacking, the opportunity arises for fraud, misuse of the organization’s assets, and employee or workplace corruption. Part of an accountant’s function is to understand and assist in maintaining the internal control in the bank.

Internal control keeps the assets of a bank safe and keeps the company from violating any laws, while fairly recording the financial activity of the company in the accounting records. Proper accounting records are used to create the financial statements that the owners use to evaluate the operations of a bank, including all bank and employee activities. Internal controls are more than just reviews of how items are recorded in the bank’s accounting records; they also include comparing the accounting records to the actual operations of the bank.

Jack (2017) argues that internal controls are the basic components of an internal control system, the sum of all internal controls and policies within bank that protect assets and data. A properly designed system of internal controls aims to ensure the integrity of assets, allows for reliable accounting information and financial reporting, enhances efficiency within a bank, and provides guidelines and possible consequences for dealing with breaches. Internal controls drive many decisions and overall operational procedures within a bank. A properly designed internal control system will not prevent all loss from occurring, but it will significantly reduce the risk of loss and increase the chance of identifying the responsible party.

Milik (2013) in his research on Internal Control System in Financial Institutions revealed that banks need both financial and nonfinancial controls to achieve goals, remain competitive in industry, and be successful. Financial controls include budgets and various financial ratios. These evaluate the financial performance of a bank. One important nonfinancial control is quality management.

Milik further elaborated that a budget sets a limit on spending and thus is a method of control used to help commercial banks achieve goals. The budget may be single number setting a manager’s spending limit or a plan with limits for detailed items. Departments and the whole bank will develop budgets both for planning and control. In this sense, budgets help control spending and ensure that goals are reached by allocating money to the places where it is needed. Without this planned allocation of resources, there is the risk of spending too much money in one or a few areas, thereby not having enough for other areas.

# Financial performance of Commercial Banks

Mawanda (2008), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. They assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process. Hitt, et al (2016) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris or overvaluation of managerial capability in the acquisition process.

# Measures of financial performance in Commercial Banks

Appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Kent (2014) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Verschoor (2009) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.

Hitt, et al., (2016) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Liquidity: Hitt, et al (2016) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (2009) also emphasized the importance of current ratio as a measure of an organization’s liquidity. Other measures of Liquidity according to ACCA are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

Accountability: According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2012) asserts that Accountability can be political, social or financial accountability.

Reporting: Whittington & Pany (2011), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”.

Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

# MULTIPLE REGRESSION ANALYSIS

The researcher conducted multiple regression analysis to establish the influence of internal control systems on financial performance in Equity Bank-Munuki- Branch, South Sudan. The findings are indicated in subsequent sections;

# Correlations Internal Control Systems and Financial Performance

Results of the correlation analysis indicates that there is a significant and positive relationship between of internal control systems and financial performance of Equity Bank-Munuki, the correlations results (r=0.787, P<0.000) of proper authorization of financial transactions to avoid misallocation of funds; and (r=0.790, P<0.000) reflects that internal controls covers both financial and non-financial assets to ensure financial performance.

# Table 8.1: Correlations between Internal Control Systems and Financial Performance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | Compliance with accounting regulations and procedures | Proper authorization of financial transactions | Financial and Non-financial assets |
| Compliance with accounting regulations and procedures | Pearson Correlation | 1 | .787\*\* | .794\*\* |
| Sig. (2-tailed) |  | .000 | .000 |
| N | 67 | 67 | 67 |
| Proper authorization of financial transactions | Pearson Correlation | .790\*\* | 1 | .790\*\* |
| Sig. (2-tailed) | .000 |  | .000 |
| N | 67 | 67 | 67 |
| Financial and Non-financial assets | Pearson Correlation | .794\*\* | .787\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 |  |
| N | 67 | 67 | 67 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | | |

# Model Summary

The table 8.2 indicates the model summary. From the findings, R was 0.894, R square was 0.730 and adjusted R squared was 0.729. R. square of 0.630 implies that 73% of changes in financial performance of Equity Bank-Munuki are explained by the independent variables of the study. There are however other factors that influence financial performance of Equity Bank-Munuki that are not included in the model which account for 0.6%. Regression of 0.794 on the other hand signifies strong positive correlation between the variables of the study.

# Table 8.2: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .894a | .730 | .729 | .64699 |
| a. Predictors: (Constant), Compliance with accounting regulations and procedures, authorization of financial transactions, financial and non-financial assets. | | | | |

# ANOVA

From the ANOVA table above, the value of F is 1727.044.Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant.

# Table 8.3: ANOVAa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 2168.792 | 3 | 722.931 | 1727.044 | .000b |
| Residual | 26.371 | 63 | .419 |  |  |
| Total | 2195.163 | 66 |  |  |  |
| a. Dependent Variable: Financial Performance | | | | | | |
| b. Predictors: (Constant), Compliance with accounting regulations and procedures, authorization of financial transactions, financial and non-financial assets. | | | | | | |

# Coefficients

This table 8.4 shows the level of significance on the variables, it also provides the standardized and unstandardized coefficients are shown below:

# Table 8.4: Coefficientsa

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .747 | .260 |  | .655 | .515 |
| Compliance with accounting regulations and procedures | .632 | .072 | .268 | .441 | .661 |
| authorization of financial transactions | .610 | .065 | .934 | 6.332 | .000 |
| financial and non-financial assets | .661 | .094 | .129 | .651 | .518 |
| a. Dependent Variable: Financial Performance | | | | | | |

In table 8.4, Financial Performance was used as the dependent variable and monitoring of activities as independent variable. It was established that compliance with accounting regulation and procedures (ß=0.632, t=0.441, P<0.6); authorization of financial transactions to avoid misallocation of funds (ß=0.610, t=6.332, P<0.000), Financial and Non-Financial Assets (ß=0.661, t=0.651, P<0.518), this indicates that internal controls have protected both financial and physical assets to ensure the integrity of accounting practices in Equity Bank- Munuki, thus improved financial performance.

# CHAPTER NINE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

# This chapter presents the summary of findings, basing on the three (3) study objectives; it also presents the conclusions and recommendations made to internal control systems and financial performance in commercial banks in South Sudan, focusing on **Equity Bank-Munuki, Branch.**

# Summary of Findings

The study focused on the internal control systems and financial performance in commercial banks, focusing on **Equity Bank-Munuki Branch, South Sudan**. A descriptive and explanatory research designs were used and both qualitative and quantitative techniques were used. The findings from the study were as follows:

A total of 70 questionnaires were distributed to the selected respondents in the study area. Out of the 70 questionnaires that were distributed, 67 questionnaires were fully completed and returned to the researcher and therefore considered for data analysis.

**Findings on whether Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance.**

Correlation results revealed that there is a significant relationship between compliance with accounting regulations and procedures and financial performance, (r=.787, P<0.000). This result indicates The Bank has accounting and procedures manual and complies with the majority of the applicable financial laws and regulations, thus improved financial performance.

Findings on presented that 68.6% of the respondents agreed that Equity Bank- Munuki has accounting and procedures manual; 55.2% agreed that Equity Bank-Munuki complies with all applicable financial laws and regulation to ensure effective financial performance; 64.2% generally agreed that Equity Bank-Munuki has selected rules and guidelines that are used in preparing and presenting its financial statements; 56.7% agreed that accounting and financial department fully disclose all financial data and accounting information in financial reports; 47.7% agreed that Accounting and Financial Department of the Bank prepare accurate and timely financial reports to ensure effective performance in all sectors; 65.7% agreed that Equity Bank-Munuki discloses the accounting policies and procedure followed to manage irregularities.

The study findings on this objective further revealed that 77.6% of the generally agreed that Equity Bank-Munuki has internal control policies and procedures in place; 65.7% agreed that Financial Accounting System are routinely reviewed and updated to assure the Bank remains financially sound and competitive; 59.7% showed that the procedures used in financial reporting are consistent to allow comparison of the bank’s financial information; 59.7% revealed that the Bank accountants and other staff in financial department have adhered to GAAP rules and regulations and 67.2% presented that accounting policies and procedures are designed to offer increased clarity, guidance and transparency in Equity Bank-Munuki.

**Findings on whether all financial transactions are properly authorized to avoid misallocation of funds at Equity Bank - Munuki.**

Correlation results revealed that there is a significant and positive relationship between proper authorization of financial transactions to avoid misallocation of funds and financial performance at Equity Bank - Munuki, (r=.794, P<0.005). This means that the Bank has an effective system prevents and detects the misuse of funds. The bank has financial controls in place to ensure that all transactions are correctly calculated, recorded, and processed.

Result of findings indicated that 64.2%agreed that the bank has an effective system prevents and detects the misuse of funds; 56.7% agreed that all transactions are made by only authorised personnel at Equity Bank–Munuki to ensure financial performance; 67.2% agreed that the bank has financial control in place to ensure that all transactions are correctly calculated, recorded and processed; 64.2% of the respondents were in agreement that all staff in financial departments has required adequate skills and knowledge in managing financial transactions; 64.2% shows that internal control system in place provides transparency and efficiency to protect employees from accusations of irregularities or misappropriations of funds.

The study further revealed that 62.7% agreed that Bank has Anti-Fraud Unit to monitor all financial services conducted within; 43.8% revealed that Equity Bank has Financial Risk Management System to monitor and evaluate market risk and credit risk; 65.6% agreed that all financial transactions are properly reported and recorded; 64.2% showed that all segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank-Munuki and 55.1% presented that each department of the Bank has its own budget to cover its own sphere of activity and responsibility to prevent misuse of funds.

**Findings on whether internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance.**

Correlation results revealed that there is a significant relationship between financial and non-financial resources and financial performance in Equity Bank-Munuki, (r=.790, P<0.05). Results revealed that internal controls have helped the Bank management to safeguard the resources, produce reliable financial reports, and comply with laws and regulations. Internal controls have protected financial and physical assets to ensure the integrity of accounting practices in Equity Bank- Munuki, thus improved financial performance.

Findings on third objective revealed that 58.2% agreed that internal control have helped the Bank management to safeguard the resources, produce reliable financial reports and comply with laws and regulations; 55.3% agreed that internal control systems have protected physical assets and ensure integrity of accounting practices in Equity Bank-Munuki; 58.2% indicated that implemented internal controls have helped managers and supervisors to measure performance, make decisions, evaluate processes and limit risks at Equity Bank-Munuki; 62.7% agreed that to eliminate opportunities for bank-related fraud, the bank management closes any dormant account immediately and reconciles all active accounts.

The study further indicated that 64.2% agreed that there is regular scheduled inspections and routine maintenance of bank assets like equipments, vehicles and buildings; 61.2% revealed that Equity Bank-Munuki use an asset register to list each asset with an ID number; 59.7% that only authorised personnel access cash restricted areas and safes or vaults at Equity Bank – Munuki; 62.7% agreed that internal controls have increased financial reliability and integrity of financial information in Equity Bank – Munuki; 67.2% agreed that the overall effectiveness of the bank’s internal controls is monitored on an ongoing basis to ensure effective financial performance.

# Conclusions

The study conclusions were drawn from the above findings;

**Equity Bank-Munuki has complied with accounting regulations and procedures to ensure financial performance.**

The study conclusion on first objective of the study presented that Equity Bank- Munuki has accounting and procedures manual and complies with all applicable financial laws and regulation to ensure effective financial performance; Equity Bank-Munuki has selected rules and guidelines that are used in preparing and presenting its financial statements; accounting and financial department fully disclose all financial data and accounting information in financial reports; Accounting and Financial Department of the Bank prepare accurate and timely financial reports to ensure effective performance in all sectors; Equity Bank-Munuki discloses the accounting policies and procedure followed to manage irregularities.

The study further concluded that Equity Bank-Munuki has internal control policies and procedures in place, Financial Accounting System are routinely reviewed and updated to assure the Bank remains financially sound and competitive, the procedures used in financial reporting are consistent to allow comparison of the bank’s financial information, the Bank accountants and other staff in financial department have adhered to GAAP rules and regulations and accounting policies and procedures are designed to offer increased clarity, guidance and transparency in Equity Bank-Munuki.

**All financial transactions are properly authorized to avoid misallocation of funds at Equity Bank - Munuki.**

The study concluded that the bank has an effective system prevents and detects the misuse of funds; all transactions are made by only authorised personnel at Equity Bank–Munuki to ensure financial performance; the bank has financial control in place to ensure that all transactions are correctly calculated, recorded and processed; all staff in financial departments has required adequate skills and knowledge in managing financial transactions; internal control system in place provides transparency and efficiency to protect employees from accusations of irregularities or misappropriations of funds.

The study further concluded that the Bank has Anti-Fraud Unit to monitor all financial services conducted within; Equity Bank has Financial Risk Management System to monitor and evaluate market risk and credit risk; all financial transactions are properly reported and recorded; all segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank-Munuki and each department of the Bank has its own budget to cover its own sphere of activity and responsibility to prevent misuse of funds.

**Internal controls cover both the financial and non-financial resources of Equity Bank-Munuki to ensure effective financial performance.**

Findings on third objective concluded that internal control have helped the Bank management to safeguard the resources, produce reliable financial reports and comply with laws and regulations; its internal control systems have protected physical assets and ensure integrity of accounting practices in Bank; implemented internal controls have helped managers and supervisors to measure performance, make decisions, evaluate processes and limit risks.

Further on this findings the study concluded that there is regular scheduled inspections and routine maintenance of bank assets like equipments, vehicles and buildings, the bank use an asset register to list each asset with an ID number; only authorised personnel access cash restricted areas and safes or vaults; internal controls have increased financial reliability and integrity of financial information in the bank; the overall effectiveness of the bank’s internal controls is monitored on an ongoing basis to ensure effective financial performance.

**Recommendations**

The study recommends that Equity Bank should monitor and supervise its branches to ensure that the accountants comply with accounting regulations and requirement as provided by the Institute of Certified Public Accountants to ensure proper implementation and compliance with accounting standards and principles. Equity Bank should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system.

The study recommends that for the institutions to perform well financially, their internal control systems need to be improved, cultivated and implemented diligently. There is need for the employees responsible for preparation of financial statements and reporting to be transparent and honest and also be held accountable for any misreporting. The officers entitled with the authority to incur and approve expenditure need also to be accountable for every resource utilized and the bank gets value for its investments. The bank also needs to improve their capital expenditure to generate income for them and improve their liquidity. There is need to take legal actions for those who have misused organizational funds and recoveries made.

Equity Bank Management should intensify control measures in order to curb fraud and misappropriation of resources in the bank. Management of bank should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system. A major issue of concern requires that authorities should develop and organize constant seminars and workshops to train and educate auditors, accountants and heads of departments on matters pertaining current trends of control measures as well as proper implementation of accounting policies and procedures.

The study recommends that senior management should have responsibility for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the bank; maintaining bank structure that clearly assigns responsibility, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

The study recommends that both internal and external auditor should be constantly updated and well grounded on international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the current financial concerns.

The study further recommends that accountants and internal auditors should be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles as well as the accounting, treasury and financial reporting manual (ATF). This should enhance their knowledge and skills in application of accounting practices and control measures to update them on the contemporary issues. The governing bodies following the guidelines defined the audit reports implementation committee (ARIC) should ensure that the internal control systems recommends by both internal and external auditors is periodically monitored and evaluated.

The study further recommends that the governing body, possibly supported by the audit committee, should ensure that the internal control system is periodically monitored and evaluated. The actual assessment should be executed by the Bank’s management. A staff person who is sufficiently independent from those responsible for the system, such as the internal auditor should provide additional assurance on the effectiveness and cost efficiency of the internal control system.

# Areas for the further research

The current study focused on the internal control system and financial performance in Commercial Banks in South Sudan, focusing on Equity Bank-Munuki. It would be interesting to conduct a study on the role of internal control systems on financial performance; this will shed more light on the appropriate model to choose when implementing better internal control systems that enhance financial performance.

1. Compliance of Accounting Regulations and Organizational Performance.
2. Monitoring Activities and Financial Performance
3. Risk Assessment and Organization performance.

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# APPENDICES

# APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE

## This questionnaire is designed to collect data on to assess the effect of internal control systems and financial performance in Commercial Banks in South Sudan: a case study of Equity Bank- Munuki Branch. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful way possible. Your participation in facilitating this study will be highly appreciated.

**SECTION A: Demographic Information**

1. What is your gender? (Please tick appropriately)

|  |  |
| --- | --- |
| Male |  |
| Female |  |

2. What is your marital status? (Please tick appropriately)

|  |  |
| --- | --- |
| Single |  |
| Married |  |
| Divorced |  |
| Widowed |  |
| Others specify |  |

3. What is your highest level of education? (Please tick appropriately)

|  |  |
| --- | --- |
| Certificate |  |
| Diploma |  |
| Undergraduate degree |  |
| Masters |  |
| PhD |  |
| Others specify |  |

4. What is your age bracket? (Please tick appropriately)

|  |  |
| --- | --- |
| 20 to 29 |  |
| 30 to 39 |  |
| 40 to 49 |  |
| 50 and above |  |

5. How long have you been working with Equity Bank South Sudan? (Please tick appropriately)

|  |  |
| --- | --- |
| 1-2 years |  |
| 3-4 Years |  |
| 5-7 Years |  |
| 8 and above |  |

6. What is your position employee? (Please tick appropriately)

|  |  |
| --- | --- |
| Administration |  |
| Management |  |
| Internal Audit |  |
| Finance and accounting |  |
| Budgeting |  |
| Credit |  |
| Information Technology |  |

**SECTION B: WHETHER EQUITY BANK MUNUKI BRANCH HAS COMPLIED WITH ACCOUNTING REGULATIONS AND PROCEDURES TO ENSURE FINANCIAL PERFORMANCE.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | The Bank has accounting and procedures manual. |  |  |  |  |  |
| 2. | Equity Bank-Munuki complies with all applicable financial laws and regulations. |  |  |  |  |  |
| 3. | Equity Bank-Munuki has selected rules and guidelines that are used in preparing and presenting its financial statements. |  |  |  |  |  |
| 4. | Accounting and financial department fully disclose all financial data and accounting information in financial reports. |  |  |  |  |  |
| 5. | Accounting and Finance Department of the Bank prepare accurate and timely financial reports to ensure effective performance in all sectors. |  |  |  |  |  |
| 6. | Equity Bank-Munuki discloses the accounting policies and procedure followed to manage irregularities. |  |  |  |  |  |
| 7. | Equity Bank-Munuki has internal control policies and procedures in place. |  |  |  |  |  |
| 8. | Financial Accounting Systems are routinely reviewed and updated to assure the Bank remains financial sound and competitive. |  |  |  |  |  |
| 9. | The procedures used in financial reporting are consistent to allow comparison of the bank’s financial information. |  |  |  |  |  |
| 10. | The Bank accountants and other staff in financial department have adhered to GAAP rules and regulations. |  |  |  |  |  |
| 11. | Accounting policies and procedures are designed to offer increased clarity, guidance and transparency. |  |  |  |  |  |

**SECTION C: WHETHER ALL FINANCIAL TRANSACTIONS ARE PROPERLY AUTHORIZED TO AVOID MISALLOCATION OF FUNDS AT EQUITY BANK-MUNUKI**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | The Bank has an effective system prevents and detects the misuse of funds. |  |  |  |  |  |
| 2. | All transactions are made by authorised personnel. |  |  |  |  |  |
| 3. | The bank has financial controls in place to ensure that all transactions are correctly calculated, recorded, and processed. |  |  |  |  |  |
| 4. | All staff in financial departments has required adequate skills and knowledge in managing financial transactions. |  |  |  |  |  |
| 5. | Internal control system in place provides transparency and efficiency, to protect employees from accusations of irregularities or misappropriations of funds. |  |  |  |  |  |
| 6. | Equity Bank-Munuki has anti-fraud unit to monitor all financial services conducted in the bank |  |  |  |  |  |
| 7. | The bank has Financial Risk Management System to monitor and evaluate market risk and credit risk. |  |  |  |  |  |
| 8. | All financial transactions are properly reported. |  |  |  |  |  |
| 9. | Segregation of responsibilities is used to safeguard all financial and accounting records in Equity Bank- Munuki. |  |  |  |  |  |
| 10. | Each department of the Bank has its own budget to cover its own sphere of activity and responsibility to prevent misuse of finances. |  |  |  |  |  |

**SECTION D: WHETHER INTERNAL CONTROLS COVER BOTH THE FINANCIAL AND NON-FINANCIAL RESOURCES OF EQUITY BANK MUNUKI BRANCH TO ENSURE EFFECTIVE FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | Internal controls have helped the Bank management to safeguard the resources, produce reliable financial reports, and comply with laws and regulations. |  |  |  |  |  |
| 2. | Internal controls have protected physical assets and ensure the integrity of accounting practices in Equity Bank- Munuki. |  |  |  |  |  |
| 3. | Implemented internal controls have helped managers and supervisors to measure performance, make decisions, evaluate processes, and limit risks at Equity Bank-Munuki. |  |  |  |  |  |
| 4. | To eliminate opportunities for bank-related fraud, the Bank closes any dormant account immediately and regularly reconciles all active accounts. |  |  |  |  |  |
| 5. | There is regular scheduled inspections and routine maintenance of bank assets like equipments, vehicles and buildings. |  |  |  |  |  |
| 6 | Equity Bank Munuki use an assets register to list each asset with an ID number. |  |  |  |  |  |
| 7. | Only authorised personnel access cash restricted areas or safes at Equity Bank Munuki. |  |  |  |  |  |
| 8. | * Internal controls have increased financial reliability and integrity of Equity Bank Munuki Branch. |  |  |  |  |  |
| 9. | The overall effectiveness of the bank’s internal controls is monitored on an ongoing basis to ensure effective financial performance. |  |  |  |  |  |

**SECTION E: FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. | There is proper financial accountability to ensure effective financial performance at Equity Bank-Munuki. |  |  |  |  |  |
| 2. | Equity Bank-Munuki has proper financial reporting to enhance its financial performance. |  |  |  |  |  |
| 3. | Equity Bank-Munuki increase transparency remarkably during the past years, especially for monetary policy. |  |  |  |  |  |
| 4. | The bank has increased its profits due to the effective internal control system in a place. |  |  |  |  |  |
| 5. | Equity Bank – Munuki has proper financial control in place to ensure financial performance |  |  |  |  |  |

# APPENDIX II

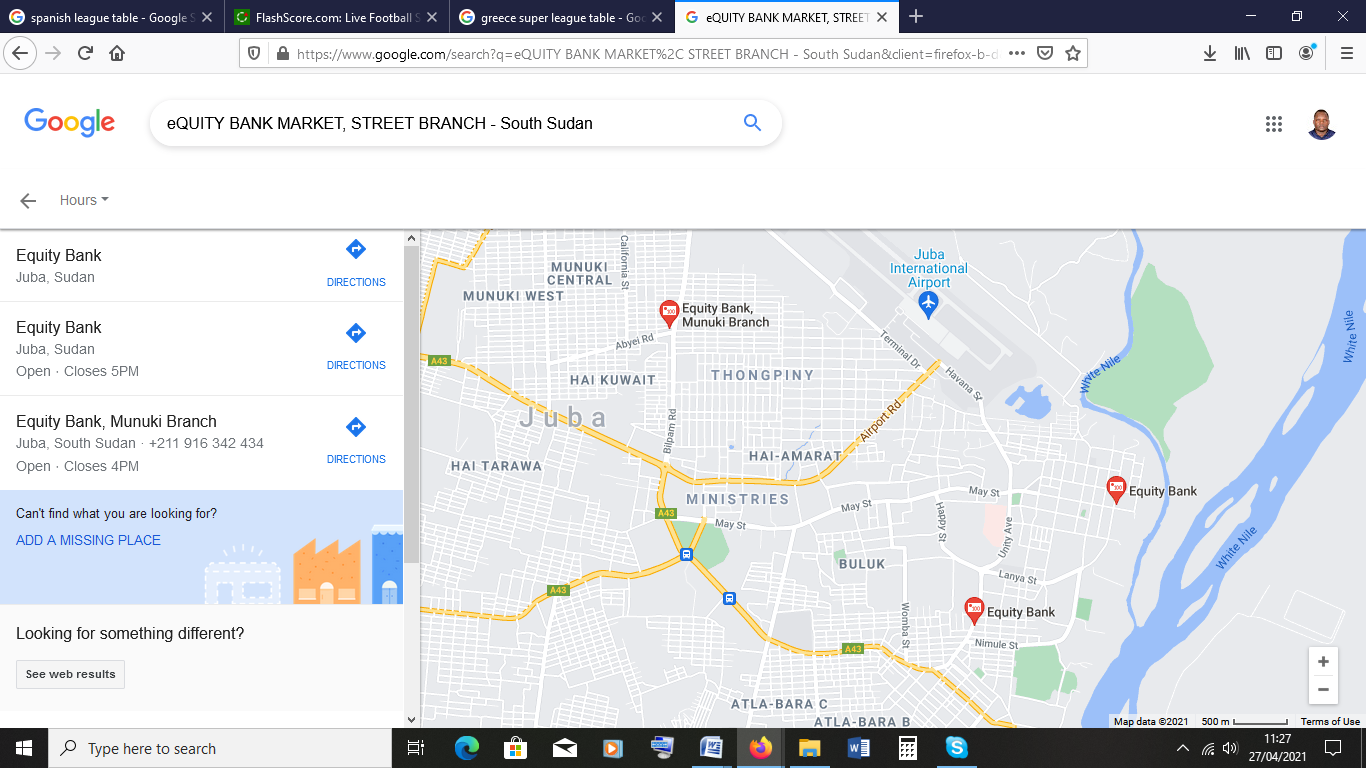
# INTERVIEW GUIDE

1. How does compliance with accounting regulations and procedures improve financial accountability in Equity Bank-Munuki?
2. How does authorization of financial transaction enhance proper financial reporting and transparency in Equity Bank-Munuki?
3. In your opinion, how does current internal control sysstem cover both the financial and non-financial aspects at Equity Bank-Munuki improve financial performance?
4. Does security system identify and safeguard all assets of Equity Bank-Munuki from misuse or abuse?
5. What are the appropriate internal controls techniques implemented at Equity Bank-Munuki to ensure effective financial performance?

***Thanks for your time and cooperation***

# APPENDIX III

# LOCATION OF CASE STUDY

****