**INTERNAL AUDITING AND FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES (SACCOs) IN UGANDA: A CASE STUDY OF**

**WAZALENDO SACCO – ENTEBBE BRANCH**

**BY**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS ADMINISTRATION IN PARTIAL FULFILMENTOF THE REQUIREMENTS FOR THE AWARD OF THE**

**MASTERS DEGREE OF SCIENCE IN ACCOUNTING**

**AND FINANCE OF NKUMBA UNIVERSITY,**

**ENTEBBE UGANDA**

**FEBRUARY, 2021**

# DECLARATION

# I Nambuya Tabitha, hereby declare that to the best of my knowledge this report is original and has never been published in any university or institution for any award.

# Signed ……….…………………………….………………………..

#  Nambuya Tabitha

# Date …………………………………………….…………………….

# APPROVAL

This is to certify that this research dissertation has been done under my supervision and guidance and is ready for submission to the University with my approval.

Signed Date

………………………………………….………….. ………………………….……………………………..

 **Nabutsale Irene Ojambo**

#

# DEDICATION

To Almighty God, your grace is sufficient. May your Holy Spirit be my light, strength and guide. Thank you for providing me with knowledge that has helped to make this project a reality. To my loving husband, Mr. Fred Sabali, my son, Ozborn N. Noah thank you for your tireless support and encouragement during my entire MBA course.

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# LIST OF ABBREVIATIONS

**BoDs :** Board of Directors

**IA :** Internal Audit

**IAS :** Internal Audit Standards

**IIA :** Institute of Internal Audit

**LPM :** Loan portfolio management

**NPLs** : Non-Performing Loans

**SACCOs** : Savings and Credit Cooperatives

**UPDF** : Uganda People's Defence Force

**WSACCO :** Wazalendo Savings And Credit Cooperative

**[LIST OF OPERATION](#_Toc92819499) DEFINITIONS**

**Internal Auditing**: Internalauditing is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations. It may help an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Financial Performance:** Financialperformance 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.

**SACCO:** SACCOS are democratic, member driven organizations which provide loan and saving products to their members. Members often share a common bond by working for the same employer, belonging to the same church, working at the same market, or living in the same community.

**ABSTRACT**

The study is about internal auditing and financial performance in SACCOs in Uganda, using a case study of Wazalendo SACCO –Entebbe Branch. The study focused on three (3) specific objectives: To establish whether internal audit standards are complied with to enhance financial performance; to establish whether monitoring and control activities enhance financial performance and to examine whether credit risk management practices enhance financial performance of Wazelendo SACCO-Entebbe Branch.

The study used a target population of 1000 selected from WSACCO staffs and a sample of 286 respondents was selected using Neumann’s formula (2000), but 265 respondents were considered for data analysis. Cross-section 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=0.630; significance level was found positive. This means that internal auditing improved financial performance of WSACCO-Entebbe.

Findings indicated that compliance with internal audit standards, monitoring and control activities and credit risk management practices have enhanced financial performance in WSACCO-Entebbe Branch, combined can explain 62.9% of the variance in financial performance (Adjusted R² = 0.629 and p≤0.01), implying that other factors other than these three are responsible for the 37.1% variance in financial performance.

The study concluded that complying with internal audit standards, proper monitoring and control activities and effective credit risk management practices enhanced financial performance of Wazelendo SACCO-Entebbe Branch.

The study recommended that WSACCO management should keep organizing seminars and workshops whereby internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor’s work must be carefully directed, supervised and reviewed.

# CHAPTER ONE

# INTRODUCTION

# Background to the Study

This study is about internal auditing and financial performance of Savings and Credit Cooperatives (SACCOs) in Uganda, focusing on Wazalendo SACCO – Entebbe Branch as a case study.

The study is significant because internal auditing is an independent, objective assurance and consulting activity designed to add value and improve SACCO’s operations. It helps SACCOs like Wazalendo accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, compliance with standards and governance processes. Internal audit is a part of the repetitive monitoring of the internal control systems of the SACCO and its procedures for evaluating internal capital.

The case study is noteworthy because Wazalendo Savings and Credit Cooperative Society (WSACCO) is a savings and credit co-operative society in Uganda with the main objective of mobilizing savings and make loans to its members at reasonable interest rates to improve their welfare. It is an institutional SACCO composed of Uganda People's Defence Force (UPDF) personnel and their families, UPDF Reserve Forces, and staff of Uganda's Ministry of Defence.

WSACCO was formed to develop the culture of saving among the UPDF staff, provide affordable loans payable from salary, for the improvement of their welfare (housing, education, agriculture, business, etc.), to educate members on how to invest in income generation for successful living with their families and prepare UPDF staff for life after service (in retirement). WSACCO is member with the Uganda Co-operative Savings and Credit Union Limited and with the Uganda Co-operative Alliance.

WSACCO was established on 22 September 2005 with initial savings of about US$96,000 (UGX: 238 million). WSACCO was registered with certificate No 7419. Membership is restricted to persons in active service with the UPDF and their families, UPDF veterans and their families, and staff of the Ministry of Defence in Uganda and their families. WSACCO adopted “Save for the Future Development” as its slogan. By 30 June 2011, 61,482 members had joined. By February 2012, membership had increased to 65,741 and total savings were valued at approximately US$9.23 million (UGX: 23 billion), making WSACCO the largest savings credit union in Uganda. As of April 2014 the WSACCO's total assets were valued at approximately US$43.7 million (UGX: 109 billion) with shareholders' equity of about US$30.1 million (UGX: 75 billion) and a loan portfolio estimated at US$35 million (UGX: 87 billion).

As of December 2014, the WSACCO's membership had increased to over 73,000. Shareholders equity stood at USh67.4 billion (US$23.4 million). Total assets were valued at USh131.1 billion (US$45.5 million). The total loan book stood at USh116.3 billion (US$40.4 million). WSACCO made after-tax profits of USh9.5 billion (US$3.3 million), for the calendar year ending 31 December 2014.

WSACCO has continued to grow through business resilience in terms of; Membership, Asset, Equity and reserves, Loan portfolio, Disbursements, and profitability. Continuous member education and mobilization is an activity through which members are updated on the progress of the SACCO, and in turn they provide feedback and also propose how to improve on the services offered by the SACCO.

The study based on contingency theory of Carlisle (1976). A contingency theory is an organizational theory that claims that there is no best way to organize a cooperative, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. The theory attempts to relate research on many management variables, for example, research on professionalism and centralized decision making or worker education and task complexity. It allows you to analyze a situation and determine what variables influence the decision with which you are concerned. The goal of an audit is to test the reliability of a company’s information, policies, practices and procedures. Cooperative Societies Act requires that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company’ s final results, and the contingency theory takes these factors into account during the audit process.

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as an independent, material and consultancy activity, which adds value and improves the functioning of an organisation. It helps the organisation achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process.

According to Robertson (2016) Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (2006) stated that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Sebbowa (2009) also defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. He further mentions the principles of Internal auditing to include; Integrity, Objectivity, Confidentiality and Competency. As Okezie; (2014) puts it, the main objective of internal auditing is “to assist management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed”.

Whittington and Pany (2011) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory and other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Mawanda (2008) argues that an effective internal audit function correlates with improved financial performance. An effective internal audit service, in particular, helped reduce to reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance. He also stated that internal audit is an invaluable tool of management for improving performance. Internal auditors help run a company more efficiently and effectively to increase shareholders value. Finally Aguola (2012) argued that the existence of an effective internal audit function is associated with superior organizational performance.

Okezie (2014) opined that internal auditing is administrative supervision with the responsibility of maintaining the implementation and follow-up of organization policies on check-mating fraud and prevention. An autonomous assessment role set up within an entity to monitor and assess its operations and report to the appropriate authority. An organization's administration cannot be familiar with every part of the organization. The internal audit department becomes the primary means of controlling the organization's activities as the' watch dog' of other regulations developed by the government. It involves checks and balances, monitoring and avoidance of theft, embezzlement, misappropriation of funds; this is performed among others by the department of internal audit.

Brown and Howard (2007) believed that several cases of vandalism, bribery, misappropriation of corporate funds and theft of property have been recorded to be in the order of the day in most organizations, especially in the financial institution. Therefore, internal auditing becomes a method of monitoring implemented by managers in business organizations to improve record accuracy and reliability. Internal audit deals with the measurement and correction of the subordinates' performance in order to achieve organizational goals with maximum efficiency and at minimum cost.

Auditing has a significant role in the financial performance of most organizations such as SACCOs. It has become increasingly varied, both in scope and objective to assist all levels of financial management in assuring internal and external constituencies that financial resources are being properly managed and accounted for. Burk (2017) posits that internal auditing practices in SACCOs have undergone dramatic changes that have expanded its scope in a way that allows it to make greater contributions towards prudent use of financial resources, accountability and efficiency. Auditing is also performed in diverse legal and cultural environments; within SACCO that vary in purpose, size, and structure; and also by persons within or outside the organization.

Gavin et al (2004) define financial performance as financial soundness of a company. 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. Measures of financial performance taken into consideration include: Reduced operating costs, increased sales and customer loyalty, increased productivity and quality, increased access to capital and earnings. Cadburys (2012) states that financial performance is a monetary measure of tasks against targets, the performance of business organizations is affected by their strategies and operations in market and non-market environments.

According to Krambia and Psaros (2016) argues that good SACCO financial performance is as a result of good financial management. Financial management is the application of financial principles within a financial institution to create and maintain value through decision-making and proper resource management. Financial performance is concerned with setting goals, planning how to achieve them, and, perhaps most importantly, deciding the best way to pay for them. It involves the process through which the SACCO creates value through its capital allocation and acquisition decisions. Managers of any SACCO are expected to forecast financial needs and opportunities, assess the value of these opportunities, and implement a strategy for achieving the company's financial goals. Major finance decisions include capital budgeting decisions, valuation analysis, financing decisions, risk management, and dividend policy.

Financial performance is taken to be the function of an organizational ability to meet its objectives by exploiting the available resources in an effective and efficient way (Upadhaya Munir and Blount, 2014) adds that, performance entails effectiveness which refers to a firm’s ability to serve and produce what the market requires at a particular time and efficiency which means meeting objectives at the lowest possible cost with the highest.

Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. According to Beyanga (2011), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance of an organisation.

At the empirical level, a survey conducted by Chepkorir (2010) found that the internal audit function in organizations where it exists, contributes substantially to financial performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal auditing by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

According to Wazalendo SACCO Internal Auditing Standards Manual (2018), the SACCO was set to achieve the following objectives:

1. To ensure that all implemented internal audit standards are complied with.
2. To maintain sound and appropriate monitoring and controls activities.
3. To ensure transparency and accountability in the use of the WSACCO’s funds.
4. To emphasize proper credit risk management practices in all departments of WSACCO.
5. To ensure that there is proper authorization and approval of loans.

This study therefore examined the extent to which these objectives have been achieved in Wazalendo SACCO – Entebbe Branch.

**Problem Statement**

Despite of the above set of objectives WSACCO-Entebbe Branch continue to struggle with liquidity problems, accountability, frauds and misuse of institutional resources and the decisions made have not yielded the expected result. This has put institution at risk of financial inadequacy, and poor service delivery. From that background, this study seeks to evaluate the role of internal auditing in enhancing efficient financial performance of WSACCO Entebbe Branch.

Reports on non-compliance of internal auditing standards by credit staffs in handling loans to members. It was discovered that credit officers in Wazalendo – Entebbe Branch collect and disburse cash in non compliance with the set of internal auditing standards. A credit Officer in Wazalendo – Entebbe Branch reports on poor authorization and non compliance of auditing standards in loan approval process. He complained that most of the loans approved by the loan Officers did not fulfill the set of criteria. The approval process of the loans was unsatisfactory.

Poor management of loan in the Wazalendo SACCO-Entebbe is a result of the existing weak monitoring and internal control activities. It was discovered that issuing of loans; collection and disbursement of cash were not handled in accordance with the existing internal controls. This was attributed this to weak internal control system in the SACCO.

In a related development, internal auditors stated that there were several weaknesses in the management of the loans particularly in the process of approval and monitoring of the borrowers’ performance which has resulted in non-performing loans (NPLs) in the WSACCO Entebbe Branch.

This study examined the extent to which the above set objectives have achieved to ensure proper financial performance at WSACCO Entebbe- Branch.

# Purpose of the Study

The main purpose of the study was to examine how internal auditing improves financial performance of SACCOs in Uganda, using Wazalendo SACCO, Entebbe Branch as a case study.

# Objectives of the Study

The study was guided by the following objectives.

1. To establish whether internal audit standards are complied with to enhance financial performance in Wazelendo SACCO-Entebbe Branch.
2. To establish whether monitoring and control activities enhance financial performance of Wazelendo SACCO-Entebbe Branch.
3. To examine whether credit risk management practices enhance financial performance of Wazelendo SACCO-Entebbe Branch.

# Research Questions

The following are the research questions of the study used;

1. How does Wazelendo SACCO-Entebbe Branch ensure that internal audit standards are complied with to enhance financial Performance?
2. How do monitoring and control activities enhance financial performance in Wazelendo SACCO-Entebbe Branch?
3. How do credit risk management practices enhance financial performance in Wazelendo SACCO-Entebbe Branch?

# Research Hypothesis

**Ho**: Internal auditing has not significantly improved the financial performance of Wazelendo SACCO-Entebbe Branch.

**H1**: Internal auditing has significantly improved the financial performance of Wazelendo SACCO-Entebbe Branch.

# Scope of the Study

***Content Scope***

The study looked at the effects of different spheres of internal auditing on the financial performance of Wazelendo SACCO-Entebbe Branch. These areas include: compliance of internal audit standards, monitoring and control activities and risk management practices.

***Geographical Scope***

Wazelendo SACCO-Entebbe Branch is located in Entebbe Municipality.

***Time Scope***

The study focused on a period of 3 years that is to say from 2017 to 2019. This period was selected because it is within that period where Wazalendo SACCO-Entebbe Branch faced tribulations from non compliance of internal audit standards, monitoring and control activities and poor credit risk management practices and other challenges faced when improving effective financial performance.

# Justification of the Study

Most SACCOs in Uganda have adopted internal auditing as a tool of monitoring financial transactions. However, financial performance of SACCOs is below expectations. There is still imprudent use of SACCO finances, lack of accountability, non compliance with internal audit standards and inefficiency, improper credit risk management practices. Yet, little has been done to interrogate the nature of internal auditing practices. That is, not much has been done to interrogate the effectiveness of internal auditing on financial performance of SACCOs.

# Significance of the Study

This study shall be great importance to the following groups of people:

**Wazalendo SACCO Management:** The research study may be of great significance to the management at all Wazalendo SACCO braches to employ relevant internal audit strategies that can improve financial performance.  Management of Wazalendo SACCO would be able to look for ways of making Internal audit a completely independent function from the management thus making it more effective. By implementing recommendations given on the internal audit reports management would be able to enhance financial performance of the SACCO.

***Policy Makers****:* The Government of Uganda shall use the findings of the study to improve on the efficiency and effectiveness of the Internal Audit Standards in SACCOs.

***Other Organizations:*** The study shall be of great importance to other SACCOs to understand the importance of effective internal auditing in enhancing financial performance of organizations. This study shall help in increasing the role and image of internal audit in SACCOs to make it more effective and professional. It shall help the shareholders appreciate the role of the internal audit as one of the most important managerial control systems in an organization required to safeguard their interests.

***Future academics and researchers:***The study shall be used as a basis for further research contributing to the appreciation of the part played by internal auditing in enhancing the financial performance of SACCOs. The study shall bring about facts which shall be of great value to their research events, and students at various levels.

# Setting of the Study

The study covers Wazalendo Savings and Credit Cooperative situated in Entebbe. Wazalendo SACCO herein referred to as “WSACCO” is a Ministry of Defence and Veteran Affairs (MODVA) and Uganda Peoples’ Defence Forces (UPDF) Co-operative Society that enables its Members to come together and pool funds (Savings) so that, they can access Loans (Credit) to engage in productive activities for improving their welfare. It was registered on 22 September 2005 with Registration Number 7419/RCS.

**Aim**: The aim of this mobilization is to update members on the status of WSACCO operations and obtain feedback. **Vision**: To be a strong and self-sustaining SACCO that drives the development of its members. **Mission:**   To mobilize funds in order to provide affordable financial services that effectively improves member’s welfare. **Core Values:**To enable WSACCO achieve vision, mission and strategic objectives, Wazalendo SACCO passionately observe a set of core values to guide SACCO operations. These include**;** integrity, excellent customer service, teamwork, commitment, professionalism, ethical, transparency, accountability and equity.

The objectives for which WSACCO was established are: To promote thrift among its members by affording them an opportunity for accumulating their savings; create a source of funds from which members can borrow at fair and reasonable interest rates; provide an opportunity for each of its members to improve their respective economic and social conditions; provide members with credit for purposes providence, production or both; offer to the members complementary savings and credit services and other financial products and services in response to the members’ changing needs and preferences; ensure safety and soundness of the members’ funds through appropriate risk management programs; ensure the progress of its members by educating them continuously on the proper use of financial products and services and perform the function and exercise the power designated for savings and credit cooperative societies under the applicable law for the benefit of the members.

WSACCO membership is comprised of UPDF Personnel, Civilian staff of Ministry of Defence and Veteran Affairs, UPDF Reserve Force, Employees of WSACCO, Spouses and children of the aforesaid persons and other interested groups of the aforesaid, approved by the BOD.

# Arrangement of the Study

The dissertation is arranged in nine chapters.

The study contains the preliminary pages, i.e. declaration, approval, dedication, acknowledgement, table of contents, list of tables, list of figures and abstract.

Chapter One presents the background to the study.

Chapter Two presents the study literature and highlights literature survey, literature review, theoretical review and the conceptual framework.

Chapter Three presents research methodology. It highlights research designs and data collection and management.

Chapter Four presents demographic characteristics of respondents.

Chapter Five presents the findings and discussion on whether internal audit standards are complied with to enhance financial performance in Wazelendo SACCO-Entebbe Branch.

Chapter Six presents the findings on whether monitoring and control activities enhance financial performance of Wazelendo SACCO-Entebbe Branch.

Chapter Seven presents the findings on whether credit risk management practices enhance financial performance of Wazelendo SACCO-Entebbe Branch.

Chapter Eight presents ways and means of improving internal auditing and financial performance in SACCOs.

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 three (3) sub-sections. Section one presents literature survey of relevant studies in the area of internal auditing in Ugandan context with the view of establishing gaps left and how the current study intends to close those gaps. Section two presents literature review and theories that have been developed in the important area of internal auditing with the view of establishing best practices elsewhere. Section three presents the model developed for the study in the form of a conceptual framework.

# Literature Survey

A survey of literature on the internal auditing and financial performance reveals that, there is enough published local research on effective internal auditing and financial performance. However, the study revealed studies of Mukeera (2017), Kaheru and Kahiinda (2018) and Mwanika (2016) as highlighted below;

A survey conducted in Uganda by Mukeera (2017) on the role of internal audit functions and performance of Savings and Credit Cooperatives in remote areas, concluded that auditors are best placed to understand and appreciate the business processes of SACCO and they act as financial performance consultant to reduce risks. Mukeera (2017) further indicated that auditors also help run SACCOs more efficiently and effectively to increase shareholders’ value. In keeping with these assertions, to accomplish this, internal auditing practices in most SACCOs must function in a manner that is in accordance with applicable professional auditing standards. Therefore, his study did not mention how compliance with internal audit standards improves financial performance of SACCOs in Uganda, thus the current study filled this gap.

Kaheru & Kahiinda (2018) did a research on Internal Control Audits and Financial Performance of Financial Institutions in Uganda, focusing on the selected SACCOs in Mbarara Municipality. He revealed that, since SACCOS are public agencies, their raising and spending of money must be reviewed and audited on a yearly basis and on an as-needed basis, as determined by the governing body. In addition, an effective financial performance system in any SACCO would include internal reviews and audit practices on a continuous basis to ensure financial prudence, accountability, efficiency and prevent fraud. Such audit practices include; involving setting up audit committees, training of internal auditors, planning audit process and reportage. These practices are important in holding SACCOs accountable for the use of funds. Therefore, their study did not point out how credit risk management practices aid SACCOs to ensure their financial performance, thus the current study bridged the gap.

In a study conducted in Eastern Uganda by Mwanika (2016) on Internal Audit Planning and Performance of SACCOs revealed that effective audit planning focuses on the auditor’s attention on key areas of the audit and ensure that sufficient resources are allocated to the engagement. He suggested that audit planning should result in an audit that is well directed and supervised and ultimately good planning will reduce audit risk in SACCOs. His findings revealed that audit strategy should set out general terms on how the audit is to be conducted and sets the scope, timing and direction of the audit. An underpinning principle of audit planning is that the SACCO audit plan should contain detailed responses to the specific risks identified from obtaining an understanding of the audited entity. Unfortunately, his study did not mention how monitoring and control activities affect financial performance of SACCOs. Therefore, the current study closed the gap.

# Literature Review

The study on internal auditing and financial performance in SACCOs is not inimitable to Uganda. It has been researched on by other writers outside Uganda. This section reviews theories that have been used to solve similar problems in both general and specific settings.

# Theoretical Review

Various theories have been formulated on internal audit and financial performance. They include Contingency Theory, Agency Theory; Lending Credibility Theory and Auditor monitoring Strength and Reputation Theory. These are discussed below:

**Contingency Theory**

The goal of an audit is to test the reliability of a company’s information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company’s final results, and the contingency theory takes these factors into account during the audit process.

The contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors.

Daft (2012) in his book writes: Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team’s structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas and on auditor availability, all of which add up to contingencies for any given audit project.

Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of a SACCO or hedge fund, even when the financial instruments the institution offers do not fit the typical mould (Davoren, 2014).

**Agency Theory**

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: the problems that arise when the desires of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Adams (2004) states that Agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form.

**Lending Credibility Theory**

Volosin, (2007) mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders’ faith in management’s stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as SACCOs, Banks and insurance companies.

Their decision is usually based on the financial reporting and the performance of the company’s management, who have a responsibility to act in the interests of investors. The auditor is appointed by the company’s shareholders and reports his results to his clients. The aim of the auditor’s report is to comment on how accurately the company presents its financial situation and how it is performing. This should reassure the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light.

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**Auditor monitoring Strength and Reputation Theory**

De Angelo (1981) argued that a critical attribute to understanding the influence of the audit on financial statement information is related to the ability of the auditor to modify his report when he discovered a breach in the financial statement of a client and the probability that the modification would take place. The probability of reporting the breach is contingent upon auditor’s independence. According to the theory, independence is a crucial attribute of the audit since the primary force-giving rise to the demand for auditing is the existing of conflict of interest between providers and users of financial information. The auditors degree of competence and independence relates to the component of audit quality referred to as auditor monitoring strength. From another perspective, auditor reputation is often used synonymously with audit quality. This theory establishes that auditor’s reputation and auditor monitoring strength are the two major components of audit quality.

Auditor monitoring strength influences information quality by improving fineness, reducing noise and reducing bias. It minimizes the difference between a client’s reported economic circumstances of the client. Auditor reputation impacts information credibility or how reliable the information is perceived to be. It relates to market perception of auditor competence and objectivity. Reputation is likely viewed as a firm wide characteristic that is consistent across audit engagement, whereas auditor monitoring strength may vary with audit engagements. This theory is applicable in Uganda as most SACCOs would prefer to engage auditors with brand name for their reputation and reports.

# Internal Audit Standards enhance financial Performance

Internal audit Standards are principles-focused, mandatory requirements consisting of: Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.

Rghunaandan, (2015) argues that compliance is typically described as the process of adhering to obligations derived from applicable laws, regulations, industry and organizational standards, contractual commitments, corporate commitments, values, sanctions, ethics, and corporate policies and procedures. While the compliance function is designed to assure that organization is complying with all those requirements, the internal audit function is meant to monitor and evaluate company’s internal control environment and examine its adequacy, efficiency, and effectiveness.

Ashton (2009) acknowledges that every SACCO should have an internal audit department on which with regard to the volume and nature of its activities it can rely. The internal audit department in finance institution must be independent from the activities which it controls and must likewise be independent from the day to day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the SACCO.

Nicole (2016) conducted a study on principles of internal auditing, she emphasized that the integrity of Internal Auditors is to establish trust and thus provides the basis for reliance on their judgment. Internal Auditors in any organization have to exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. She further stated that Internal Auditors have to respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so and lastly, internal Auditors have to apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Bou-Raad (2016) argued that standards for audits and audit related services are published by the IIA 2008 and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach. This is important not only for compliance with legal requirements, but because the scope of an auditor’s duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad, 2016). It can thus be argued that greater quality of IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit’s planning and execution will improve the audit’s effectiveness.

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Members of the internal audit team may not participate in the organization’s operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the SACCO. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided. The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department’s employees must always be ensured, as must their regular training. The internal audit department is responsible to the SACCO’s management and its board of directors, possibly also to the audit committee, if the SACCO has one. These bodies of the SACCO should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department’s objectives (Carcello and Hermanson, 2015).

# Monitoring and Control Activities and Financial Performance

Routine controls are the detailed internal controls which are embedded within the operations of the organization. They consist of prevention and detection / monitoring controls. Prevention controls restrict an unintended activity from occurring. Detection controls aim to identify activities that have occurred but were not planned.

The overall effectiveness of the SACCO’s internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the SACCO as well as periodic evaluations by the business lines and internal audit. There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to senior management.

Rory and Marc (2010) suggest that internal auditing is performed as part of the monitoring activity of SACCO. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An internal auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory and other assets and cooperates harmoniously with other departments, normally reports to the top management. Bassiru (2011) on the other hand asserts that internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities; the scope of internal audit is determined by management”. This may however, impair the internal auditor’s objectivity and hamper his independence, it is quite hard to report negatively on someone who determines the scope of work.

Haylas and Ashton (2012) avow that a system of effective controls is a critical component of SACCO management and a foundation for the safe and sound operation of SACCO. A system of strong internal controls can help to ensure that the goals and objectives of a saving and credit organization will be met, that the SACCO will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the SACCO 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 SACCO’s reputation.

Schiuma (2014) argued that organization controls set the structure of the entity and ensure adequate segregation of duties to minimize fraud and collusion. Physical controls ensure the safeguarding of assets, that transactions are authorized and approved and that there are arithmetic accounting controls. Personnel controls include ensuring the recruitment of suitably qualified personal, adequate supervision and management oversight.

Mwithi (2015) in his longitudinal study on internal control activities, states that the board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the SACCO; understanding the major risks run by the SACCO, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organisational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. He further states that the board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

Stones *et al* (2010) affirms that the board of directors provides governance, guidance and oversight to senior management. Board members should be objective, capable, and inquisitive, with a knowledge or expertise of the activities of and risks run by the SACCO. They further elaborated that the board should consist of some members who are independent from the daily management of the SACCO. A strong, active board, particularly when coupled with effective upward communication channels and capable financial, legal, and internal audit functions, provides an important mechanism to ensure the correction of problems that may diminish the effectiveness of the internal control system.

Harry et al (2017) opines that senior management of SACCOs have responsibility for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the SACCO; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

Hellenakov (2013) argued that control activities should be an integral part of the daily activities of a SACCO. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorisations; and a system of verification and reconciliation.

Hellenakov further emphasised that control activities are designed and implemented to address the risks that the SACCO identified through the risk assessment process. Control activities involve two steps: (1) the establishment of control policies and procedures; and (2) verification that the control policies and procedures are being complied with. Control activities involve all levels of personnel in the SACCO, including senior management as well as front line personnel.

According to Illic (2016), control activities are most effective when they are viewed by management and all other personnel as an integral part of, rather than an addition to, the daily activities of the SACCO. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. In addition, controls that are an integral part of the daily activities enable quick responses to changing conditions and avoid unnecessary costs. As part of fostering the appropriate control culture within the SACCO, senior management should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel.

It is not sufficient for senior management to simply establish appropriate policies and procedures for the various activities and divisions of the SACCO (Illic, 2016). They must regularly ensure that all areas of the SACCO are in compliance with such policies and procedures and also determine that existing policies and procedures remain adequate. This is usually a major role of the internal audit function.

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed, (Haylas and Ashton, 2012). Controls audits can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. Internal controls audit objectives relate to management‘s plans, methods, and procedures used to meet the organization‘s mission, goals, and objectives. Internal control includes planning, organizing, directing, and controlling program operations and the systems put in place to measure, report, and monitor program performance, (Esmailjee, 2013).

# Credit Risk Management Practices and Financial Performance

Credit risk is the risk that a financial institution will incur losses because the financial position of a borrower has deteriorated to the point that the value of an asset (including off- balance sheet assets) is reduced or extinguished. Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize an organization's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Organizations need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The organizations should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any organization (Kealhofer, 2013).

The importance of credit risk management is increasing with time because of some reasons like economic crises and stagnation, company insolvencies, infraction of rules in company accounting and audits, growth of off-balance sheet derivatives, declining and volatile values of collateral, borrowing more easily of small firms, and financial globalization (Bofondi and Gobbi, 2013). The following are the credit risk management practices conducted by SACCOs.

**Loan Portfolio:** Loan Portfolio constitutes loans that have been made or bought and are being held for repayment. Loan portfolios are the major asset of SACCOs and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, hut also on the quality or likelihood that interest and principal will be paid (Jansson, 2012).

Effective management of the loan portfolio and the credit function is fundamental to a SACCOs' safety and soundness. Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the LPM process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps the management takes to identify and control risk throughout the credit process (Richardson, 2012).

**Credit Risk Management**: When a SACCO grants credit to its customers it incurs the risk of non-payment. Credit management, or more precisely credit risk management, refers to the systems, procedures and controls which a SACCO has in place to ensure the efficient collection of customer payments minimize the risk of non-payment, (Naceur and Goaied. 2013). Credit risk management forms a key part of a company's overall risk management strategy. Weak credit risk management is a primary course of many business failures. Many small businesses, for example, have neither the resources nor the expertise to operate a sound credit management system (Richardson, 2012).

**Risk Identification**: Risk identification is a process that reveals and determines the possible organizational risks as well as conditions, arising risks. By risk identification the organization is able to study activities and places where its resources are exposed to risks (Williams et al., 2008). Risk identification is the first stage of risk management. It develops the basis for the next steps: analysis and control of risk management. Correct risk identification ensures risk management effectiveness. If risk managers do not succeed in identifying all possible losses or gains that challenge the organization, then these non-identified risks will become non-manageable (Greene and Trieschmann, 2014). Risk identification can be described by the following basic elements: sources of risks; hazard factors; perils and exposures to risk.

**Risk Analysis**: The condition under which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for is termed risk (Vaughn, 2017). Risk analysis is the analysis of the anticipated cost that will be incurred if a contingency takes place. This analysis is done before any contingency occurs. There are two elements included within this definition: future uncertainties and impact of outcomes.

An institution should have a policy to develop, review and implement an internal risk rating system where appropriate. Such a system should be able to assign a credit risk rating lo obligors that accurately reflects the obligors' risk profile and likelihood of loss. It should also assign risk ratings in a consistent manner to enable the institution to classify obligors by risk ratings and have a clearer understanding of the overall risk profile of its portfolio. The institution's credit policy should define the various risk grades of its rating system. It should also set the criteria for assigning risk grades and the circumstances under which deviations from criteria are permitted. The credit policy should also define the roles of different parties involved in the rating process (Strutt 2013).

**Credit Risk Assessment:** These constitute the process that a financial institution uses to determine the credit worthiness of a borrower. An institution should conduct comprehensive assessments of the creditworthiness of its obligors. These should include, where pertinent, analysis of the obligor's financial position as reflected in various financial and cash, how statements, past repayment record, management quality and integrity, as well as relevant industry and macroeconomic data. For corporate obligors, adequate checks on the shareholders and company directors should be conducted. The institution should group related obligors where appropriate, and conduct credit assessment on a group basis (Baldoni, 2008).

**Credit Risk** **Monitoring**: A SACCO should have in place a system for monitoring the condition of individual credits. Key indicators of credit condition should be specified and monitored to identity and report potential problem credits. These would include indicators from the following areas: financial position and business conditions; conduct of accounts; loan covenants; external rating and market price. In addition to monitoring the above risk indicators, an institution should also monitor the use of funds to determine whether credit facilities are drawn down for their intended purposes (Al-Tamimi and Al-Mazrooei, 2007).

**Credit Risk Management Procedures:** These are procedures followed by an organization in order to implement its credit policy. An institution should establish appropriate procedures and processes; these should be documented and set out in sufficient detail to provide operational guidance to staff. Procedures should be established for the implementation of various controls and check within the credit process, such as completion of credit and legal documents, verification of loan disbursement, implementation of facility limits and follow up on credit exceptions. The operational procedures should be periodically reviewed and updated to take into account new activities and products, as well as new lending approaches and changes in systems (Fallon, 2016).

Sarens and De Beelde (2016) also show that the risk and control awareness have an influence on the scope of the Internal Audit Function. These results suggest that when management is aware of risks and control activities, they are more likely to understand the role of the Internal Audit Function in monitoring risk and control activities, thus it is more likely that they will support a relatively larger Internal Audit. There must be a strong internal control system and the internal auditor must verify the operations of the system in much the same way, as the external auditor. It involves the investigation, recording, identification and review of compliance tests of control, they also argued that effective internal audit procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud.

According to (Al-Mazrooei, 2017), an effective internal control system requires that the material risks that could adversely affect the achievement of the SACCO’s goals are being recognised and continually assessed. This assessment should cover all risks facing the SACCO (that is, credit risk, transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Haimes, (2008) argues that SACCOs are in the business of risk-taking. Consequently it is imperative that, as part of an internal control system, these risks are being recognised and continually assessed. From an internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the credit organisation’s performance, information and compliance objectives. This process should cover all risks faced by the SACCO and operate at all levels within the SACCO. It differs from the risk management process which typically focuses more on the review of business strategies developed to maximise the risk/reward trade-off within the different areas of the SACCO.

Sarens et al (2016) affirms that effective risk assessment identifies and considers internal factors (such as the complexity of the organisation’s structure, the nature of the SACCOs’ activities, the quality of personnel, organisational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the SACCO’s goals. This risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated credit and saving organisation. This can be accomplished through various methods. Effective risk assessment addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide.

In order for risk assessment, and therefore the system of internal control, to remain effective, senior management needs to continually evaluate the risks affecting the achievement of its goals and react to changing circumstances and conditions. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks. For example, as financial innovation occurs, a SACCO needs to evaluate new financial instruments and market transactions and consider the risks associated with these activities.

# Financial Performance

Usher (2007) states that financial performance in SACCOs is supposed to be efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It includes how to raise the capital, how to allocate it i.e. capital budgeting. Not only about long term budgeting but also how to allocate the short term resources like current assets. It also deals with the dividend policies of the share holders.

Solomon (2005) describes financial performance as an integral part of overall management. It is concerned with the duties of the financial managers in the SACCO. Financial performance is concerned with the efficient use of an important economic resource namely, capital funds and deals with procurement of funds and their effective utilization in the business”. Howard (2007) defines financial performance “as an application of general managerial principles to the area of financial decision-making, harmonizing individual motives and enterprise goals. Joseph (2010) states that financial performance is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations. Thus, financial performance is mainly concerned with the effective funds management in the business. In simple words, financial performance as practiced by business firms can be called as Corporate Finance or Business Finance.

According to Greashin (2009), financial performance is the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery and achievement of the organization’s goals. The financial performance processes within public organizations should provide information that can be used to: direct the activities of the organisation; control the activities of the organisation; report and discharge accountability; and ensure utilization of resources efficiently and effectively.

Malik (2008) states that the implementation of the financial accounting regulations and procedures has been slow and inconsistent across Local Governments, and officials and staff are overwhelmed and confused by many of the innovations and regulations prescribed. Inconsistent and sometimes conflicting policies issued by the Bank of Uganda to regulate financial and accounting issues further complicate efforts to implement robust financial systems and transparent accounting practices in SACCO**.** In addition to the complexity of the national regulations affecting budget and financial performance, there are a variety of human resource issues that impede progress towards the development of sound financial performance systems that support good local governance.

Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth (Crey, 2011).

Schiuma (2012) mentioned accounting- based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI).These are widely used to assess the performance of financial institutions, including SACCOs. SACCOs regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure as inputs in statistical models to predict SACCO failures and mergers and for a variety of other purposes where a measure of profitability is desired. The main purpose of this study was to examine if internal auditing can actually enhance SACCOs financial performance.

There are many aspects of the performance of SACCOs that can be analysed. Muga (2012) stated that the importance of SACCO profitability can be appraised at the micro and macro levels of the economy. At the micro level, profit is the essential prerequisite of a competitive financial institution and the cheapest source of funds. Hence the basic aim of SACCO management is to maximize surplus, as an essential requirement for conducting business. At the micro level, a sound and profitable credit and saving sector is better able to withstand negative shocks and contribute to the stability of the financial system. SACCO profits provide an important source of equity especially if re-invested into the business. This should lead to safe SACCOs, and as such high profits could promote financial stability.

Financial Performance in this study will be gauged by profitability, sales, and market share. Profit/Surplus, this is a control dimension that ensures that users of financial information, who include all the stake holders, get an accurate and reliable summary which communicates the firm’s financial affairs (Pandey, 2012) define the concepts of profitability, sales growth and market share.

# Conceptual Framework

From the forgoing literature, the following model has been developed. The conceptual framework shows the linkage between variables and how they affect each other. The independent variable is internal auditing and the dependent variable is financial performance. The conceptual framework highlights major factors and their consequences on financial performance.

**Independent Variable Dependent Variable**

**Financial Performance**

* Surplus
* Financial Accountability
* Transparency

**Internal Auditing**

* Compliance of IAS.
* Monitoring and Control Activities.
* Credit Risk Management Practices

**Moderating Variables**

* SACCO Policies
* Qualifications
* Code of Conduct

# Figure 2.1: Conceptual Framework

**Source: Bou-Raad (2016), Modified by the Researcher, 2021**

From the above framework of the study, the independent variable is Internal Auditing and the dependent variable is Financial Performance. Internal Auditing consist of compliance of internal audit standards, monitoring and control activities and credit risk management practices. Financial Performance as dependent variable consists of profitability, financial growth, transparency, and financial accountability. Whereas, moderating variables consist of SACCO policies, qualifications, and code of conduct.

This model suggests that effective internal auditing lead to financial performance which helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes. This model should be applied by Wazalendo SACCO Entebbe Branch and management should look at it from an employee's point of view. The model, when applied will help Wazalendo SACCO Entebbe Branch to achieve its goals such as profitability, financial accountability, financial growth, transparency, among others.

# CHAPTER THREE

# METHODOLOGY

# Introduction

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

# Research Design

Research design is the framework of research methods and techniques chosen by a researcher. The design allowed researchers to hone in on research methods that are suitable for the subject matter and set up their studies up for success. The study adopted a cross sectional and descriptive research designs. In cross-sectional study design, the researcher collected data from many different individuals at a single point in time. To achieve the study objectives, an analytical cross sectional survey design was used to capture the categorical description of attitudes of the study population Sekaran, (2013).

The qualitative and quantitative approaches were employed based on the WSACCO staff drawn from different departments at Entebbe Branch. The study specifically was non experimental because the research is intended to describe and make observations of what the real results are for purposes of making decisions based on the facts to improve the situation.

# Study population

Population consists of the entire group of events, elements and individuals that have a common observable characteristic (Lewis, 2015). The study comprised a population of 1000 respondents who were selected from different departments such as administration and management, accounting and finance, credit and saving, internal audit, and members of WSACCO-Entebbe Branch, these include Uganda People's Defence Force (UPDF) personnel and their families, UPDF Reserve Forces, and staff of Uganda's Ministry of Defence.

# Sample Size Determination

A sample size is sub set of the population drawn to represent the entire population or any combination of sampling units that does not include the entire set of sampling units that has been defined as the population (Garson 2012). Moser and Kalron (2014) assert 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 of respondents was 286 as calculated using Neumann’s (2000) formulae as follows.

 n = N
 1+ N (e)2

Where:
n = sample size
N = target population

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

 n = 1000
 1 + 1000(0.05)2
 n = 1000
 1 + 1000(0.0025)
 n = 1000
 1 + 2.5

 n = 1000
 3.5
 **n = 286**

# Table 3:1: Sampling Frame of Wazalendo SACCO- Entebbe Branch

|  |  |  |  |
| --- | --- | --- | --- |
| **Category of Staff** | **Target Population**  | **Sample Size** | **Sampling Techniques** |
|  | Administration  | 10 | 05 | Purposive Sampling |
| Management  | 15 | 08 | Purposive Sampling |
| Internal Audit | 12 | 07 | Purposive Sampling |
| Finance and Accounting  | 15 | 08 | Purposive Sampling |
| Credit and Savings | 20 | 14 | Random Sampling |
| Customer Service | 05 | 04 | Random Sampling |
| Members  | 923 | 265 | Random Sampling |
| Total  | **1000** | **286** |  |

Source: Primary Data, 2021

# Sampling Methods or Techniques

Sampling is a technique of selecting individual members or a subset of the population to make statistical inferences from them and estimate characteristics of the whole population (Kothari, 2004). Purposive and random sampling was used to select respondents to be included in the sample.

# Purposive Sampling

Mugenda (2006) stated that purposive sampling is a method that allows the researcher to use respondents that have the required information depending on the objectives of the study. Purposive sampling is a deliberate sampling which involves the deliberate selection of particular units of the sample size (Kothari 2004). The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which enabled the researcher to answer the research questions. Purposive sampling therefore saves on time and resources that the researcher used to collect the information.The researcher ensured that the respondents picked have the relevant information of the research that is being carried out.Purposive sampling was used to select administrative staff, managers, internal auditors and finance and accounts staff to be included in the sample.

# Random Sampling

Random sampling as suggested by Murphy (2009) often means chance or a haphazard method of assignment and it is applied to eliminate bias, both conscious and unconscious, that the researcher could introduce in sample selection. This method also offered every member of the population an equal chance of being selected for the assignment and it is required for inferential statistics since the researcher desires to make inferences about populations based on the behavior of samples. The researcher randomly chose a number to represent the sample size and a list is generated.

# Data Sources

The sources or types of data are classified into two types: Primary and Secondary data.

# Primary Data

Primary data is a type of data that is collected by researchers directly from main sources through interviews, surveys, experiments, and so on (Creswell, 2013). Primary data are usually collected from the source where the data originally originates from and are regarded as the best kind of data in research. The sources of primary data are usually chosen and tailored specifically to meet the demands or requirements of particular research (Hox and Boeije (2005). Primary data was collected using questionnaires and interviews with members, administrators and managers of WSACCO.

# Secondary Data

Secondary data is the data that has already been collected through primary sources and made readily available for researchers to use for their own research. It is a type of data that has already been collected in the past (Surbhi 2016). Sources of secondary data include books, personal sources, journals, newspapers, websites, government records, and so on. Secondary data was collected through reviewing WSACCO journals, website, data stream, articles and publications of WSACCO-Entebbe Branch.

# Data Collection Procedures

This being an academic study, the researcher sought for a supportive letter explaining the objectives of the research signed by the Dean of Business Administration (SBA) before distributing the questionnaires and interview guides to the respondents at WSACCO Entebbe Branch. Respondents were asked to present their data confidentially and anonymously.

# Data Collection Methods

Data collection is defined as the procedure of collecting, measuring and analyzing accurate insights for research using standard validated techniques. Whitney et al, (2008) further states that data collection methods are used to gather and measure formation on variables of interest, in an established systematic fashion that enables researcher to answer stated research questions, test hypotheses, and evaluate outcomes. In collection of data, multiple methods were used to collect data because there is no single method of data collection which can guarantee 100 percent accurate data. Both primary and secondary data collection methods were used to collect relevant data. This study also used close-ended (structured) questionnaires to ascertain Internal Auditing and Financial Performance in Wazalendo SACCO-Entebbe Branch.

# Questionnaire Method

A questionnaire consists of a set of questions for submission to a number of persons or respondents in order to gather specific data about a given phenomenon or subject Onyango, (2012). The questionnaire is the main primary source of data collection for this study. The identified sample was served with the questionnaire directly by the researcher. To obtain quantitative data, similar set of questionnaire was given to all respondents. The questions involve the feelings of respondent groups regarding the contribution of internal auditing and financial performance in WSACCO-Entebbe Branch. The questionnaire aimed at getting responses from the respondents about their views on internal auditing and how it can be improved. Close-ended was used in order to supplement each other. The close-ended questionnaires were used to get information that is definite on internal auditing and financial performance of WSACCO- Entebbe Branch.

# Interview Method

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 helped to collect additional views from respondents on the theme of the study. The questions were filled on spot and the researcher interview respondents from their places of work to save time.

# Documentary Review Method

Document review is a way of collecting data by reviewing existing documents. Different types of documents were used to supplement data obtained by other sources. Important information such as internal audit report, historical documents, financial reports, internal audit standards, financial performance ratings and other documents were reviewed. These are expected to provide the support information needed in the study and writing of the final report. Each documentary data source was carefully considered for suitability and relevant for the study purpose.

# Data Collection Instruments or Tools

Data collection tools refer to the devices/instruments used to collect data, such as a paper questionnaire or computer-assisted interviewing system. Data collections instruments include; case studies, checklists, interviews and surveys or questionnaires are all tools used to collect data. The study used survey /questionnaire, interview guide and documentary checklist.

# Self Administered Questionnaire (SAQ)

Questionnaires were used for purposes of analyzing different viewpoints of different respondents on the same issue, to increase the validity and objectivity of the research results. Questionnaires were used to collect data from clients and staff. This mode of questionnaires was believed to be convenient for this category of respondents. Selfadministeredquestionnaire was useful especially in collecting data from purposively selected respondents and it was also enable the researcher to achieve success in collecting reliable and dependable data from respondents.

# Interview guide

Mugenda, (2006) defines interview guide refers to a qualitative tool of collecting data by asking respondents questions and following up or probing and prompting their responses or answers. The interview guides were used to ensure consistency and uniformity of the questions asked so as to ensure reliability of the findings of the study. The interviews lasted for about 10 minutes with each group of respondents in a bid to probe deeply the various developments with regard to internal auditing and financial performance as well as various procedures put in place to ensure proper continued performance.

# Documentary Review Checklist

A documentary review check list was designed to extract the necessary information from the documents. The researcher used the documents available on internal auditing and financial performance. These include WSACCO internal audit standards, WSACCO Internal Control Policies and Dissertations of other researchers, websites, SACCO journals, among others. These helped the researcher to supplement on the already existing literature and enable the researcher to get more specific information about the topic under study.

# Validity and Reliability of the Instruments

# Validity of Instruments

Validity is often defined as the extent to which an instrument measures what it purports to measure. Validity requires that an instrument is reliable, but an instrument can be reliable without being valid (Kimberlin and Winterstein, 2008). To ensure the appropriateness of the research instruments, content validity index (CVI) was determined. Content validity refers to the test which actually measures or is specifically related to the traits for which it was designed. It shows how adequately the instruments sample the universe of knowledge, skills, perceptions and attitudes that the respondents are expected to exhibit.

The formula was used to test the validity index is as shown below:

CVI= Number of items regarded relevant by judges x 100

 Total number of items

# Reliability of instruments

Reliability is the degree to which measures are free from error and therefore yield consistent results (i.e. the consistency of a measurement procedure) (Kimberlin and Winterstein, 2008). Joppe (2010) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Embodied in this citation is the idea of reliability or repeatability of results or observations.

To ascertain the reliability of the instruments, the study used the test retest method; where the same score on test one is the same as test two. The study employed the coefficient alpha, also known as the Cronbach Alpha. This was developed by Cronbach in 1951 and it is the average of the correlations of all the possible ways of dividing the test into two sets. Cronbach alpha splits all the questions on the instrument and computer correlation values for them. Like Correlation values for them; like correlation coefficient, the closer it is to; the higher the reliability estimate of the instrument.

# Data Processing

The data obtained from the questionnaires were double checked to make sure that the information provided is complete, consistent, reliable, and accurate. Data processing involved scrutiny of the responses given on the questionnaires by different respondents. Data was sorted, edited, and interpreted. The coding and tabulation of the data obtained from the study was then followed.

# Data Presentation

Data was summarized and presented in form of frequency tables, texts. Quantitative data was summarized and presented in frequency tables to generate descriptive statistics. These aimed at enabling quick reading and understanding of the data. The tables with frequencies and percentages were aimed at giving a visual impression to the readers.

# Data Analysis

The data was collected from the field using questionnaires, interview guides, and was analyzed using both descriptive statistics and inferential statistics (correlation, regression and coefficients). Data was analyzed using various statistical techniques. Regression analysis and Pearson’s coefficient of correlation was carried out using the statistical package for social scientists (SPSS) in order to test the relationship between the independent and the dependent variables, that is, internal auditing and financial performance of WSACCO- Entebbe Branch.

# Ethical Considerations

Effort was made to confine the conduct of the study to the realms of academic research ethics. In general, ethics pertaining to identification, disclosure, understanding, informed consent, voluntary participation, confidentiality, right to privacy and anonymity was taken care of by the study. The rights of staff and institution (WSACCO) were respected. The researcher first sought consent of all the respondents, who was assured of confidentiality of their responses. Furthermore, confidentiality of data provided by individuals or identifiable participants was maintained. Interaction with respondents was done politely and consciously. The participant ensured voluntary participation of the respondents and the right to withdraw partially or completely from the process.

# Limitations to the Study

The researcher met low response rates since such data about internal auditing and financial performance in army-based organization need secrecy. A friendly approach was adopted when dealing with the respondents in order to avert this problem and they were reminded so often.

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.

The researcher encountered the problem of lack of co-operation by some respondents, as well as the bureaucratic procedures in the WSACCO-Entebbe Branch.

Reluctance of respondents to fill and return the refilled instruments was another challenge. The researcher however, kept reminding them to overcome this problem.

# CHAPTER FOUR

# DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

# Introduction

This chapter presents findings about the demographic characteristics of the respondents. The demographic factors considered for the different respondents included gender, age, position held in the organization, education qualification, marital status and length of service at Wazalendo SACCO-Entebbe Branch. This was done to give the user of this information a clear picture of the attributes of the sample from whom the data was collected. A total of 286 questionnaires were distributed to selected respondents. Only 272 out of distributed questionnaires were returned to the researcher. After the exclusion of incomplete questionnaires, only 265 were considered for data analysis. The results from this analysis are presented below:

# Gender of the Respondents

From table 4.1, the majority 169(63.8%) of the respondents were males while 96(36.2%) were females. This means that Wazalendo SACCO-Entebbe Branch has more male members than female. Besides that, males were more excited about and willing to take part in the study hence they comprised most of the respondents.

# Table 4.1: Gender of the Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent |  Cumulative Percent |
| Valid | Male | 169 | 63.8 | 63.8 |
| Female | 96 | 36.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# Age of the Respondents

Finding in table 4.2 indicates that a large portion of the respondents 112(42.2%) were aged 20 to 30 years, 70(26.4%) were aged 30 to 40 years, 59(22.3%) were aged 40 – 50 years and 24(9.1%) were above 50 years. According to these results from the field, all respondents were mature enough to take part in the study and provide relevant responses on topic under study.

# Table 4.2: Age of the Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent |  Cumulative Percent |
| Valid | 20-30 Years | 112 | 42.2 | 42.2 |
| 30-40 Years | 70 | 26.4 | 68.6 |
| 40 – 50 Years  | 59 | 22.3 | 90.9 |
| Above 50 Years | 24 | 9.1 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# Departments of the Respondents

The study findings on the category of the respondents at Wazalendo SACCO-Entebbe Branch revealed that 5(1.9%) of the respondents were from Administration department, 7(2.6%) were from management, 6(2.3%) were from internal audit, 6(2.3%) were from finance and accounting department, 14(5.3%) were from credit and savings department, 4(1.5%) were from customer service and 223(84.1%) were members of WSACCO members, these include; UPDF Officers and Militants, Civilian employees of Ministry of Defence, Spouses and children of UPDF Officers and Militants, Officers & Militants and Retired UPDF personnel as shown in the table 4.3. This implies that all selected respondents were able to provide relevant information on internal auditing and financial performance of Wazalendo SACCO-Entebbe Branch.

# Table 4.3: Department of work by the respondents

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Administration  | 5 | 1.9 | 1.9 |
| Management  | 7 | 2.6 | 4.5 |
| Internal Audit | 6 | 2.3 | 6.8 |
| Finance and Accounting  | 6 | 2.3 | 9.1 |
| Credit and Savings | 14 | 5.3 | 14.4 |
| Customer Service | 4 | 1.5 | 15.9 |
| Members  | 223 | 84.1 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# Educational Qualification of the Respondents

From table 4.4, the majority of the respondents 105(39.6%) have certificates in different courses, 78(29.4%) have diplomas, 66(24.9%) have undergraduate degrees, 13(5%) have masters degrees and 3(1.1%) have PhD. This implies that all respondents were capable of providing information on the topic under study.

# Table 4.4: Educational Qualification of the Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent | Cumulative Percent |
| Valid | Certificate | 105 | 39.6 | 39.6 |
| Diploma | 78 | 29.4 | 69.0 |
| Degree | 66 | 24.9 | 93.9 |
| Masters | 13 | 5.0 | 98.9 |
| PhD | 3 | 1.1 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# Marital Status of the Respondents

Findings in table 4.5 reveals the marital statuses of the respondents, 81(30.5%) were married, 59(22.3%) were single, 26(9.8%) were divorced and 99(37.4%) were cohabiting. All respondent were in line of providing accurate and reliable information on internal auditing and financial performance.

# Table 4.5: Marital Status of the Respondents

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent |  Cumulative Percent |
| Valid | Married | 81 | 30.5 | 30.5 |
| Single | 59 | 22.3 | 52.8 |
| Divorced | 26 | 9.8 | 62.6 |
| Cohabiting | 99 | 37.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# Period spent with the WSACCO-Entebbe Branch

The various respondents had served in WSACCO-Entebbe Branch for varying tenures as shown in the table 4.6. The results indicated that 78(29.4%) had served for less than 2 years, 85(32.1%) had worked with the SACCO for more than 2 years and 102 (38.5%) has worked with the SACCO for more than 5 years. Those who had served for more than 2 years have provided more detailed information on the study variables.

# Table 4.6: Period spent with WSACCO Entebbe Branch

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent | Cumulative Percent |
| Valid | Less than 2 years | 78 | 29.4 | 29.4 |
| Above 2 Years | 85 | 32.1 | 61.5 |
| Above 5 Years | 102 | 38.5 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

# CHAPTER FIVE

# INTERNAL AUDITING STANDARDS ARE COMPLIED WITH TO ENHANCE FINANCIAL PERFORMANCE IN WAZELENDO SACCO-ENTEBBE BRANCH

# Introduction

This chapter focuses on the results of the first objective of the study which sought to establish whether internal auditing standards are complied with to enhance financial performance in Wazalendo SACCO-Entebbe Branch. Study findings on this objective are presented, analyzed and interpreted as below.

# WSACCO-Entebbe Branch has updated internal auditing standards manual

Question was raised on whether WSACCO Entebbe Branch has updated internal auditing standards manual in place, their responses were reflected in table 5.1.

# Table 5.1: WSACCO-Entebbe has updated internal auditing standards manual

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 43 | 16.2 | 16.2 |
| Disagree | 41 | 15.5 | 31.7 |
| Neutral | 20 | 7.5 | 39.2 |
| Agree | 107 |  40.4 | 79.6 |
| Strongly Agree | 54 | 20.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

The results in table 5.1 indicate that 161(60.8%) of the respondents agreed that WSACCO Entebbe has updated internal auditing standards manual in place. This is means that this manual summarizes the operations of the internal audit function at the SACCO and delineates the policies, standards, and procedures which generally govern the internal audit function, thus improved financial performance. However, 20(7.5%) were not sure and 84(31.7%) disagreed. They revealed that in some WSACCO projects, these policies, standards, and procedures may not be followed for certain special projects requested by the Audit Committee, Board of Trustees and under other special circumstances.

# All departments in WSACCO Entebbe Branch comply with departmental audits

On the question whether all departments in WSACCO comply with the implemented departmental audits their responses were as shown in table 5.2.

# Table 5.2: Departments in WSACCO comply with the implemented department audits

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 30 | 11.3 | 11.3 |
| Disagree | 42 | 15.8 | 27.1 |
| Neutral | 24 | 9.1 | 36.2 |
| Agree | 97 | 36.6 | 72.8 |
| Strongly Agree | 72 | 27.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Findings in table 5.2 confirmed that 169(63.8%) of the respondents have the same opinion that all departments of WSACCO Entebbe Branch comply with the implemented department audits to ensure proper financial performance. This means that departmental audits are designed to review and evaluate the activities and operations of a particular WSACCO Entebbe function, activity, department or unit under review. From the interview conducted on some staff from Audit Department, they revealed “departmental audits evaluate accounting controls, ensure compliance with WSACCO policies and procedures, applicable laws and regulations, and validate the records and account balances of the auditee; this has helped the SACCO to improve its financial performance.Though, 24(9.1%) were not sure whether departments follow and fulfill these audits or not and 72(27.1%) of the respondents had different opinion on the question raised. This means that some top officials in WSACCO fail to fulfill or comply with department audit practices.

# WSACCO fulfill all relevant aspects of the internal audit manual.

The study asked respondents whether the internal auditing (IA) department ensures that WSACCO fulfill all relevant aspects of the internal audit manual; their responses were as shown in the table 5.3.

# Table 5.3: WSACCO fulfill all relevant aspects of the internal audit manual.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 43 | 16.2 | 16.2 |
| Disagree | 44 | 16.6 | 32.8 |
| Neutral | 25 |  9.4 | 42.2 |
| Agree | 60 | 22.6 | 64.8 |
| Strongly Agree | 93 | 35.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Study findings reveals that 153(57.8%) of the respondents concurred that internal auditing (IA) department ensures that WSACCO fulfill all relevant aspects of the internal audit manual. This divulges that department executes procedures and control as applied in this manual to impact the attainment of WSACCO-Entebbe’s goals and objectives, this has helped the WSACCO to improve its financial performance. However, 25(9.4%) were neutral and 87(32.8%) of the respondents had different view. They exposed that the internal audit department should majorly focus on how all departments at WSACCO Entebbe Branch comply with all WSACCO policies and procedures as well as applicable laws and regulations, this should help the branch to ensure financial performance in activities or services conducted.

# Maintenance of Financial Records

The question was asked on whether the financial records are maintained in accordance with the established accounting regulations and their responses were as shown in table 5.4.

# Table 5.4: Maintenance of financial records

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 39 | 14.7 | 14.7 |
| Disagree | 53 | 20.0 | 34.7 |
| Neutral | 26 | 9.8 | 44.5 |
| Agree | 64 | 24.2 | 68.7 |
| Strongly Agree | 83 |  31.3 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Results in table 5.4 present that 147(55.5%) of the respondents were in agreement that financial records are maintained in accordance with the established accounting regulations. This shows that all financial or accounting records involve in preparing financial statements for the WSACCO Entebbe Branch are maintained in accordance with implemented SACCO policies and procedures, laws and regulations to ensure improved financial performance. Though, 26(9.8%) were not sure and 92(34.7%) of the respondents disagreed. This means that sometime, financial records like records of assets and liabilities, monetary transactions, ledgers, journals, and other supporting documents such as checks and invoices are not well kept. Therefore, finance and account records should be adequately maintained to meet basic, widely accepted standards of accountability in WSACCO-Entebbe Branch, this should aid the management to ensure effective financial performance.

# WSACCO-Entebbe Branch has well qualified internal auditors

An internal auditor is a company employee who independently and objectively evaluates the organization’s operations.  The study asked respondents whether Wazalendo SACCO Entebbe Branch has well qualified internal auditors to ensure financial performance; their responses were as presented in the table 5.5.

# Table 5.5: WSACCO-Entebbe Branch has well qualified internal auditors.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent |  Cumulative Percent |
| Valid | Strongly Disagree | 46 | 17.4 | 17.4 |
| Disagree | 27 | 10.2 | 27.6 |
| Neutral | 15 | 5.7 | 33.3 |
| Agree | 66 | 24.9 | 58.2 |
| Strongly Agree | 111 | 41.8 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Findings in table 5.5 indicate that the majority 177(66.7%) of the respondents had similar attitude and agreed that whether Wazalendo SACCO Entebbe Branch has well qualified internal auditors to ensure financial performance. This is a clear reflection that WSACCO- Entebbe Branch has trained professional internal auditors who are tasked with providing independent and objective evaluations of SACCO financial and operational business activities. Despite the fact that, 15(5.7%) were not sure and 73(27.6%) of the respondents were in disagreement. This means that even though the SACCO has profession trained internal auditors some failed to perform as expected by the management, though it is their duty and responsibility to ensure that the WSACCO-Entebbe Branch comply with laws and regulations, follow proper procedures, and function as efficiently as possible.

# The Internal Audit department is independent

Respondents were asked whether the internal audit department is independent from the activities it controls to ensure effective financial performance. Their responses were as summarised in the table 5.6.

# Table 5.6: The internal audit department is independent

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 48 | 18.1 | 18.1 |
| Disagree | 46 | 17.4 | 35.5 |
| Neutral | 20 | 7.5 | 43.0 |
| Agree | 85 | 32.1 | 75.1 |
| Strongly Agree | 66 | 24.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Research findings in table 5.6 indicate that 151(57%) of the respondents agreed that the Internal Audit department of WSACCO Entebbe Branch is independent from the activities it controls to ensure effective financial performance. This indicates internal audit department have access to all records from other departments and it is allowed to employ appropriate probing techniques without impediment or obstruction, this has lend a hand in ensuring proper financial performance. Yet, 20(7.5%) were not sure and 94(35.5%) of the respondents were in disagreement. Some respondents revealed that some officers do not allow internal auditors to conduct their investigation in their department, due to this SACCO is military based, “*order is order*”, and internal auditors cannot ask much. Therefore, to maintain objectivity in WSACCO-Entebbe, internal audit department/auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an unbiased and impartial mindset in regard to all engagements, thus improved financial performance.

# Proper monitoring of finances in WSACCO-Entebbe Branch

The study asked a question on whether there is proper monitoring of finances in WSACCO Entebbe to ensure financial performance. Their rejoinders were as depicted in table 5.7.

# Table 5.7: Proper monitoring of finances in WSACCO-Entebbe Branch

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 41 | 15.5 | 15.5 |
| Disagree | 37 | 14.0 | 29.5 |
| Neutral | 23 | 8.6 | 38.1 |
| Agree | 102 | 38.5 | 76.6 |
| Strongly Agree | 62 | 23.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Results from table 5.7 reveals that 164(61.9%) of the respondents had similar opinion that there is proper monitoring of finances in WSACCO Entebbe Branch to ensure financial performance. This is evidence that all departments are required to regularly monitor actual activity to planned activity and control their expenditure to ensure that it is in line with available SACCO funds. *From the interview conducted on the staff in Finance and Accounts department, it was discovered that financial monitoring is conducted in order to get a pertinent picture of the financial situation of the SACCO, which are reflected in the level of profitability, efficiency and financial risk*. However, 23(8.6%) were not sure and 38(29.5%) of the respondents disagreed. This means that the management of this SACCO fails to monitor public finances properly as expected or estimated by the WSACCO Board of Directors.

# Internal Auditors at WSACCO exhibit the highest level of professional objectivity

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. The study asked whether internal Auditors at WSACCO exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined to the Board of Directors and other staff. Their responses were as portrayed in table 5.8.

# Table 5.8: Internal Auditors at exhibit the highest level of professional objectivity

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 25 | 9.4 | 9.4 |
| Disagree | 78 | 29.4 | 38.8 |
| Neutral | 16 | 6.0 | 44.8 |
| Agree | 76 | 28.8 | 73.6 |
| Strongly Agree | 70 |  26.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Focusing on findings in table 5.8, the majority 146(55.2%) of the respondents noted that internal Auditors at WSACCO-Entebbe Branch exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined to the Board of Directors and other staff. Still, 16(6%) were not sure and 103(38.8%) of the respondents were in disagreement. This means that that some auditors at WSACCO-Entebbe Branch perform their work and make judgments basing on unbiased look at circumstances, and some are not basing on the facts provided by the departments.

# Internal Audit department acts with high degree of integrity

On the question whether internal auditing department acts with high degree of integrity in execution of duties in WSACCO, their responses were as exposed in the table 5.9.

# Table 5.9: Internal audit department acts with high degree of integrity

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 59 | 22.3 | 22.3 |
| Disagree | 26 | 9.8 | 32.1 |
| Neutral | 14 | 5.3 | 37.4 |
| Agree | 86 | 32.5 | 69.9 |
| Strongly Agree | 80 | 30.1 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Research findings in table 5.9 indicate that 166(62.6%) of the respondents generally agreed that internal auditing department acts with high degree of integrity in execution of duties in WSACCO-Entebbe Branch. It was discovered that the integrity of internal department/ auditors establishes trust and thus provides the basis for reliance on their judgment. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments in WSACCO. However, 14(5.3%) were not sure and 85(32.1%) of the respondents disagreed. This means that some internal auditors are still lacking integrity in their services. Therefore, to conduct Internal Audit engagements should be in accordance with laid down regulations and guidelines, this should help the management to improve SACCO’s financial performance.

# Internal audit (IA) department periodically reviews the systems established

Respondents were asked whether internal audit department periodically reviews the systems established to ensure compliance with those policies, plans, procedures laws and regulations. Their responses were as shown in table 5.10.

# Table 5.10: IA department periodically reviews the systems established.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 22 | 8.3 | 8.3 |
| Disagree | 26 | 9.8 | 18.1 |
| Neutral | 10 | 3.8 | 21.9 |
| Agree | 86 | 32.5 | 54.4 |
| Strongly Agree | 121 | 45.6 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

From the study findings presented in table 5.10, the majority 207(78.1%) of the respondents generally accepted that internal audit department periodically reviews the systems established to ensure compliance with those policies, plans, procedures laws and regulations to ensure effective performance of WSACCO finance. Officials found in IA department further divulged that “*the internal audit function provides the board and senior management with analyses, findings, and corrective action recommendations on the activities, operations, and products tested*”. Still, 10(3.8%) were not sure and 48(18.1%) of the respondents were in disagreement. Therefore, internal audit department should be committed to assist all levels of management and staff in the achievement of WSACCO's goals and objectives by striving to provide a positive impact on the efficiency and effectiveness of audit operations to enable the SACCO management ensure effective financial performance.

# CHAPTER SIX

# MONITORING AND CONTROL ACTIVITIES ENHANCE FINANCIAL PERFORMANCE OF WAZELENDO SACCO-ENTEBBE BRANCH.

# Introduction

This chapter presents analysis and interpretation on findings gathered on second objective of the study which sought to establish monitoring and control activities enhance financial performance of Wazalendo SACCO-Entebbe Branch.

# Independent team monitors WSACCO finances

On the question whether there is an independent team monitors WSACCO-Entebbe finances to ensure financial performance. Their responses were as highlighted in table 6.1.

# Table 6.1: Independent team monitors WSACCO finances

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 34 | 12.8 | 12.8 |
| Disagree | 39 | 14.7 | 27.5 |
| Neutral | 24 | 9.1 | 36.6 |
| Agree | 88 | 33.2 | 69.8 |
| Strongly Agree | 80 | 30.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Findings in table 6.1 present that 168(63.4%) of the respondents were in agreement that there is an independent team monitors WSACCO –Entebbe Branch finances to ensure financial performance. This means that the main purpose of this team is to reduce WSACCO-Entebbe Branch's credit risk by preventing the opportunistic behavior of borrowers. However, 24(9.1%) were not sure and 73(27.5%) of the respondents were in disagreement. This means that some team members are not professional and skilled enough to monitor and evaluate WSACCO-Entebbe Branch’s finance forthcoming credit risks.

# Periodically reviews and monitors the overall strategies

The study asked whether the management is responsible for approving and periodically reviewing and monitoring the overall strategies and significant policies of the WSACCO to ensure financial performance and their responses were as depicted in table 6.2.

# Table 6.2: Periodically reviews and monitors the overall strategies

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 27 | 10.2 | 10.2 |
| Disagree | 35 | 13.2 | 23.4 |
| Neutral | 18 | 6.8 | 30.2 |
| Agree | 97 | 36.6 | 66.8 |
| Strongly Agree | 88 | 33.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Results in table 6.2 present that 185(69.8%) of the respondents generally agreed that the management is responsible for approving and periodically reviewing and monitoring the overall strategies and significant policies of the WSACCO-Entebbe Branch to ensure financial performance. This means that the board of directors understand the major risks run by the SACCO, setting acceptable levels for these risks and ensuring that managers takes the steps necessary to identify, measure, monitor and control credit risks; approving the SACCO structure; and ensuring that WSACCO manager monitor the effectiveness of the internal control system, thus improved financial performance. However, 18(6.8%) were not sure and 62(23.4%) of the respondents were in disagreement. Therefore, the board of directors should be ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained at WSACCO-Entebbe Branch.

# Monitoring of key credit risks

On the question whether monitoring of key credit risks is part of the daily activities conducted by the management at Wazelendo SACCO-Entebbe Branch, their responses were as summarized in table 6.3.

# Table 6.3: Monitoring of key credit risks is part of the daily activities.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 33 | 12.5 | 12.5 |
| Disagree | 38 | 14.3 | 26.8 |
| Neutral | 20 | 7.5 | 34.4 |
| Agree | 114 | 43.1 | 77.4 |
| Strongly Agree | 60 | 22.6 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Study findings in table 6.3 reveal that 174(65.7%) of the respondents have the same opinion that monitoring of key credit risks is part of the daily activities conducted by the management at Wazelendo SACCO-Entebbe Branch. This means that the SACCO has an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management. However, 20(7.5%) were not sure and 71(26.8%) of the respondents have different opinion. Therefore, the board of directors should have responsibility for approving and periodically (at least annually) reviewing the credit risk strategy and significant credit risk policies of the SACCO to ensure effective financial performance.

# IA department monitors the implementation of efficient control activities

Monitoring internal controls is essential to ensure controls are operating efficiently. On the question whether the internal audit (IA) department monitors the implementation of efficient and effective control activities to ensure proper financial performance and their responses were shown in table 6.4.

# Table 6.4: IA department monitors the implementation of efficient control activities.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  Frequency |  Percent | Cumulative Percent |
| Valid | Strongly Disagree | 41 | 15.5 | 15.5 |
| Disagree | 42 | 15.8 | 31.3 |
| Neutral | 25 | 9.4 | 40.7 |
| Agree | 75 | 28.4 | 69.1 |
| Strongly Agree | 82 | 30.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Research findings in table 6.4 indicate that 157(59.3%) of the respondents were in agreement that internal audit (IA) department monitors the implementation of efficient and effective control activities to ensure proper financial performance. This means that monitoring involves the use of evaluations by management and third-parties of the controls in WSACCO-Entebbe to identify issues and communicate these issues to the appropriate parties for corrective action to be taken. Though, 25(9.4%) were neutral and 83(31.3%) of the respondents were in disagreement. Therefore, proper monitoring activities should conduct continual evaluations of the implementation and operation of the all components of an internal audit, this help management to ensure effective financial performance.

# Management implements strategies and policies and approved by the board

When respondents were asked whether management of WSACCO-Entebbe Branch is responsible for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred and their responses were as indicated in table 6.5.

# Table 6.5: Management implements strategies and policies

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 41 | 15.5 | 15.5 |
| Disagree | 58 | 21.9 | 37.4 |
| Neutral | 11 | 4.2 | 41.6 |
| Agree | 68 | 25.6 | 67.2 |
| Strongly Agree | 87 | 32.8 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 6.5, the majority 155(58.4%) of the respondents were in agreement that management of WSACCO-Entebbe is responsible for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the SACCO. This means that the management maintains the SACCO structure and clearly assigns responsibility, authority and reporting relationships; ensure that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitor the adequacy and effectiveness of the internal control system, this has achieved WSACCO’s financial performance. Yet, 11(4.2%) were not sure and 99(37.4%) of the respondents were in disagreement. Therefore, the overall effectiveness of the SACCO’s activities should be monitored on an ongoing basis by the board of directors and management.

# High degree of integrity in execution of duties

On the question whether internal auditing department acts with high degree of integrity in execution of duties in WSACCO – Entebbe Branch. Their responses were as reflected in table 6.6.

# Table 6.6: High degree of integrity in execution of duties in WSACCO – Entebbe

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 39 | 14.7 | 14.7 |
| Disagree | 63 | 23.8 | 38.5 |
| Neutral | 22 | 8.3 | 46.8 |
| Agree | 99 | 37.4 | 84.2 |
| Strongly Agree | 42 | 15.8 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Research findings in table 6.6 presents that 141(53.2%) of the respondents accepted that internal auditing department acts with high degree of integrity in execution of duties in WSACCO – Entebbe Branch. They revealed that Integrity help the internal auditors to earn better trust in their professional judgments by other departments or stakeholders in WSACCO-Entebbe Branch. However, 22(8.3%) were not sure and 102(38.5%) of the respondents were in disagreement. This means that some officials in internal audit department do no act with high degree of integrity in execution of duties. Therefore, the department should perform their work with honesty, diligence, and responsibility and respect and contribute to the legitimate and ethical objectives of the Wazalendo SACCO.

# Control activities are designed and implemented to address risks

Control activities are actions taken to minimize risk.  On the question whether control activities are designed and implemented to address the risks that WSACCO-Entebbe Branch identified through the risk assessment process. Their responses were as shown in table 6.7.

# Table 6.7: Control activities are designed and implemented to address risks

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 30 | 11.3 | 11.3 |
| Disagree | 55 | 20.8 | 32.1 |
| Neutral | 24 | 9.1 | 41.2 |
| Agree | 60 | 22.6 | 63.8 |
| Strongly Agree | 96 | 36.2 | 100. |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Study findings in table 6.7 indicate that the majority 156(58.8%) of the respondents agreed that control activities are designed to address the risks that WSACCO-Entebbe management identified through the risk assessment process. This means that the management use preventive and detective control activities to reduce credit risks and other financial risks likely to happen. The researcher conducted an interview on some of the officials in IA department, they elaborated that “*preventive activities are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing procedures to avoid them and detective activities are designed to identify undesirable events that do occur and alert WSACCO management about what has happened.* This enables WSACCO-Entebbe management to take corrective action promptly.” Nonetheless, 24(9.1%) were not sure and 85(32.1%) of the respondents disagreed. This indicates that even though the management has implemented several control measures, there is still occurrence of financial risks.

# The BoDs is responsible for ensuring effective system of internal controls

A system of effective controls is a critical component of management and a foundation for the safe and sound operation of SACCO. On the question whether the BoDs is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained in WSACCO Entebbe Branch. Their responses were as reflected in table 6.8.

# Table 6.8: The BoDs is responsible for ensuring effective system of internal controls

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 15 | 5.7 | 5.7 |
| Disagree | 47 | 17.7 | 23.4 |
| Neutral | 19 | 7.2 | 30.6 |
| Agree | 91 | 34.3 | 64.9 |
| Strongly Agree | 93 | 35.1 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Focusing on findings in table 6.8 present that 184(69.4%) of the respondents were in agreement that the Board of Directors (BoDs) is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained in WSACCO Entebbe Branch. They revealed that it is the responsibility of the board of directors and senior management of WSACCO-Entebbe Branch to emphasise the importance of internal control through their actions and words, this has enabled the management to ensure effective financial performance. Conversely, 19(34.3%) were not sure and 62(23.5%) of the respondents disagreed. This indicates that sometime the BoDs fail to make all departments comply with SACCO policies and procedures.

# Control activities verify whether control policies and procedures are complied with.

Respondents were asked whether control activities verify whether control policies and procedures are being complied with in WSACCO-Entebbe Branch and their responses were as shown in table 6.9.

# Table 6.9: Control activities verify whether control policies are complied with.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 39 | 14.7 | 14.7 |
| Disagree | 55 | 20.8 | 35.5 |
| Neutral | 18 | 6.8 | 42.3 |
| Agree | 80 | 30.2 | 72.5 |
| Strongly Agree | 73 | 27.5 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 6.9, the majority 153(57.7%) of the respondents agreed that control activities verify whether control policies and procedures are being complied with in WSACCO-Entebbe Branch. This reveals that the SACCO has policies, procedures, techniques and internal control mechanism that help the management to ensure loan or financial risks identified during financial or credit risk assessment process is carried out to ensure effective financial performance. Nonetheless, 18(6.8%) were not sure and 94(35.5%) of the respondents disagreed. This means that some officials in WSACCO-Entebbe have failed to comply with the implemented policies and procedures, thus poor financial performance in some units of the SACCO. Therefore, all departments should comply with the policies and procedures of the SACCO, because they help the SACCO achieve its operations, financial reporting, and compliance objectives, thus improved financial performance.

# CHAPTER SEVEN

# CREDIT RISK MANAGEMENT PRACTICES ENHANCE FINANCIAL PERFORMANCE

# OF WAZELENDO SACCO-ENTEBBE BRANCH

# Introduction

This chapter presents analysis and interpretation of findings on third objective of the study which sought to establish whether credit risk management practices enhance financial performance of Wazalendo Saving and Credit Cooperative-Entebbe Branch.

# WSACCO – Entebbe Branch has existing credit policy

On the question whether WSACCO – Entebbe Branch has existing credit policy to ensure proper issuance of loans. Their responses were as indicated in table 7.1.

# Table 7.1: WSACCO – Entebbe Branch has existing credit policy.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 28 | 10.6 | 10.6 |
| Disagree | 30 | 11.3 | 21.9 |
| Neutral | 17 | 6.4 | 28.3 |
| Agree | 78 | 29.4 | 57.7 |
| Strongly Agree | 112 | 42.3 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Findings in table 7.1 indicate that 190(71.7%) of the respondents generally agreed that WSACCO – Entebbe Branch has existing credit policy to ensure proper issuance of loans. This means that the SACCO has guidelines that structure the amount of credit granted, as well as how creditors and credit officers have to operate. Though, 17(6.4%) were not sure and 58(21.9%) of the respondents disagreed. This indicates that even though the SACCO has credit policy followed when issuing loans, some clients and officials fail to comply with it. Therefore, rules and regulations provided in the policy should only mean to cushion members against financial distress and SACCOs bad debts, this should enable the SACCO to guarantee effective financial performance.

# Members participating in formulation of loan policies

When respondents were asked whether members participating in formulation of loan policies at WSACCO – Entebbe Branch, their responses were as summarised in table 7.2.

# Table 7.2: Members participating in formulation of loan policies

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 30 | 11.3 | 11.3 |
| Disagree | 29 | 10.9 | 22.2 |
| Neutral | 18 | 6.8 | 29.0 |
| Agree | 82 | 30.9 | 60.0 |
| Strongly Agree | 106 | 40.0 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 7.2, the majority 188(70.9%) of the respondents have similar opinion that members participating in formulation of loan policies at WSACCO – Entebbe Branch. This means that members are involved in processes of inventing loan policies and procedures; this has helped staff and members throughout to understand the WSACCO’s credit culture and risk profile. They further elaborated that this has helped member to be familiar with the total amount of money given out in different loan products. However, 18(6.8%) were not sure and 59(22.2%) of the respondents have dissimilar opinion. This was crystal clear that not all members of WSACCO-Entebbe Branch are involved in formulating these policies. Therefore, all members should be consulted when WSACCO-Entebbe is formulating loan policies to ensure effective compliance of rules and regulations governing credit activities.

# Management involve internal auditors and other parties in the risk identification

The profession of internal audit is fundamentally concerned with evaluating an organisation’s management of risk. Respondents were asked whether WSACCO-Entebbe Branch management involves internal auditors and other parties in the risk identification process and their responses were as shown in table 7.3.

# Table 7.3: WSACCO management involves internal auditors in risk identification

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 36 | 13.4 | 13.4 |
| Disagree | 21 | 7.9 | 21.3 |
| Neutral | 23 | 8.7 | 30.0 |
| Agree | 131 | 49.4 | 79.4 |
| Strongly Agree | 49 | 18.6 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 7.3 present that 180(68%) of the respondents generally agreed that WSACCO-Entebbe Branch management involves internal auditors and other parties in the risk identification process. From the interview conducted on internal auditors found on the site, it was discovered that “*to evaluate how well risks are being managed the internal auditor assess the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of SACCO and report this directly and independently to the most senior level of executive management and to the board’s audit committee*.” However, 23(8.7%) were not sure and 57(21.3%) of the respondents disagreed. Therefore, internal auditors provide independent assurance that WSACCO’s risk management, governance and internal control processes are operating effectively to ensure efficient financial performance.

# Credit risks are properly analysed and assessed by the BOD

Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. The study asked a question on whether credit risks are properly analysed and assessed at WSACCO- Entebbe Branch and their responses were as revealed in table 7.4.

# Table 7.4: Credit risks are properly analysed and assessed

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 19 | 7.2 | 7.2 |
| Disagree | 31 |  11.7 | 18.9 |
| Neutral | 17 | 6.4 | 25.3 |
| Agree | 120 | 45.3 | 70.6 |
| Strongly Agree | 78 | 29.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 7.4, the majority 198(74.7%) of the respondents were in agreement that credit risks are properly analysed and assessed at WSACCO- Entebbe Branch. This implies that the main goal of credit analysis and assessment is to determine the creditworthiness of potential borrowers and their ability to honor their debt obligations. They further revealed that proper assessing and managing credit risk by the management lessen the severity of loss in Wazalendo SACCO-Entebbe Branch.On the other hand, 17(6.4%) were not sure and 50(18.9%) of the respondents disagreed. For that reason, the main purpose of credit risk analysis and assessment should be to quantify the level of credit risk that the borrower presents to the lender; this help the SACCO to ensure effective financial performance.

# Risk monitoring helps the management to discover mistake at an early stage

Risk monitoring is the process which tracks and evaluates the levels of risk in an organisation such as WSACCO. The researcher raised a question on whether risk monitoring helps the WSACCO management to discover mistake at an early stage, their responses were depicted in table 7.5.

# Table 7.5: Risk monitoring helps management to discover mistake at an early stage.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 33 | 12.5 | 12.5 |
| Disagree | 51 | 19.2 | 31.7 |
| Neutral | 24 | 9.1 | 40.8 |
| Agree | 65 | 24.5 | 65.3 |
| Strongly Agree | 92 | 34.7 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Results in table 7.5 indicate that 157(58.2%) of the respondents were in agreement that risk monitoring helps the WSACCO management to discover mistake at an early stage. This means that risk action plan has been created and timeline is also created to ensure that check-ups are done in a timely fashion in the SACCO.They further revealed that risk monitoring is important because it helps the management of WSACCO-Entebbe to highlight whether strategies are effective or not, this has enabled the entire to ensure efficient financial performance. However, 24(9.1%) were not sure and 84(31.7%) of the respondents disagreed. This means that sometime the management fails to keep track of the risks that occur.

# Risk analysis is a comprehensive risk measurement and mitigation methods

Riskanalysis is a proven way of identifying and assessing factors that could negatively affect the success of a business or project. Respondents were asked whether risk analysis is a comprehensive risk measurement and mitigation method at WSACCO –Entebbe Branch. Their responses were as reflected in table 7.6.

# Table 7.6: Risk analysis and assessment are comprehensive risk measurement.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 39 | 14.7 | 14.7 |
| Disagree | 43 | 16.2 | 30.9 |
| Neutral | 24 | 9.1 | 40.0 |
| Agree | 105 | 39.6 | 79.6 |
| Strongly Agree | 54 | 20.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Study findings in table 7.6 indicate that 159(60%) of the respondents generally agreed that risk analysis is a comprehensive risk measurement and mitigation method at WSACCO –Entebbe Branch. This means that this analysis helped the management to identify and assess factors that could negative affect the success of WSACCO-Entebbe Branch. Though, 24(9.1%) were not sure and 82(30.9%) of the respondents disagreed. This reveals that even though the SACCO has professional risks analysts, it was found out that the WSACCO-Entebbe is still facing number of risks; these include credit risks, operational risks, liquidity risks, and so on.

# Credit Management Policy

Credit management policies are rules and guidelines established by top management that govern the company’s credit department and its performance in the extension of credit privileges. Respondents were asked whether credit management policy ensure that all credits are monitored and reviewed periodically. Their responses were as presented in the table 7.7.

# Table 7.7: Credit management policy

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 35 | 13.2 | 13.2 |
| Disagree | 60 | 22.6 | 35.8 |
| Neutral | 22 | 8.3 | 44.1 |
| Agree | 86 | 32.5 | 76.6 |
| Strongly Agree | 62 | 23.4 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Focusing on the study findings presented in table 7.7, the majority 148(35.9%) of the respondents were in agreement that credit management policy ensure that all credits are monitored and reviewed periodically to ensure proper financial performance at WSACCO-Entebbe Branch. This means that the credit management policy in place identify, measure, monitor and control credit risk as part of an overall approach to risk management in WSACCO-Entebbe Branch.However, 22(8.3%) were not sure and 95(35.8%) of the respondents disagreed. WSACCO management should have in place a system for monitoring the condition of individual credits, this help the SACCO management to be acquainted with customer’s credit statuses.

# Credit risk management practices are in line with proper internal controls

 Credit management practices are the strategies used by financial organization to ensure that the level of credit is acceptable and it is managed effectively. On the question whether credit risk management practices are in line with proper internal controls in WSACCO-Entebbe Branch. Their responses were as shown in the table 7.8.

# Table 7.8: credit risk management practices are in line with proper internal controls.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 47 | 17.7 | 17.7 |
| Disagree | 57 | 21.5 | 39.2 |
| Neutral | 23 | 8.7 | 47.9 |
| Agree | 72 | 27.2 | 75.1 |
| Strongly Agree | 66 | 24.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Table 7.8 reveals that 138(52.1%) of the respondents agreed that credit risk management practices are in line with proper internal controls in WSACCO-Entebbe Branch. This implies that the credit department uses these strategies to collect and control credit payments from clients; this has helped the SACCO to ensure effective financial performance. They further indicated that these strategies are part of financial management and comprised of the analysis of credit, rating of credit, classification and reporting of credit. Despite the fact that, 23(8.7%) were not sure on the matter and 104(39.2%) of the respondents have dissimilar opinion. Therefore, the credit risk management practices should be always be utilised to mitigate losses by understanding the adequacy of SACCO's capital and loan loss reserves at any given time, this enable the SACCO to ensure improved financial performance.

# Risk identification assists the management to develop risk management strategy

Risk identification is the process of listing potential project risks and their characteristics.  Respondents were asked whether risk identification assists the WSACCO-Entebbe Branch management to develop risk management strategy to allocate resources efficiently. Their responses were as revealed in the table 7.9.

# Table 7.9: Risk identification assists the management to develop risk strategy

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 30 | 11.3 | 11.3 |
| Disagree | 42 | 15.8 | 27.1 |
| Neutral | 29 | 11.0 | 38.1 |
| Agree | 76 | 28.7 | 66.8 |
| Strongly Agree | 88 | 33.2 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Result of findings in the table 7.9 reveals that the majority 164(61.9%) of the respondent generally agreed that risk identification assists the WSACCO-Entebbe Branch management to develop risk management strategy to allocate resources efficiently. They revealed that there is daily process of determining risks that could potentially prevent the SACCO from achieving its objectives and goals; this has enabled the management to ensure effective and efficient financial performance. On the other hand, 29(11%) were not sure and 72(27.1%) of the respondents disagreed. This means that some officials in the credit department fail to identify and assess threats to the SACCO, its operations, and its workforce before happens.

# WSACCO –Entebbe has well qualified and skilled staff in managing credit risks

On the question whether WSACCO –Entebbe Branch has well qualified and skilled staff in managing credit risks. Their responses were as shown in the table 7.10.

# Table 7.10: WSACCO has well qualified and skilled staff in managing credit risks.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 23 | 8.7 | 8.7 |
| Disagree | 35 | 13.2 | 21.9 |
| Neutral | 24 | 9.1 | 31.0 |
| Agree | 102 | 38.5 | 69.5 |
| Strongly Agree | 81 | 30.5 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Research findings in table 7.10 indicate that the majority 184(69%) of the respondents generally agreed that WSACCO –Entebbe Branch has well qualified and skilled staff in managing credit risks. This means that there are trained and skilled credit risks analysts who communicate credit risk strategies and policies effectively throughout the WSACCO-Entebbe. They further revealed that these staffs are responsible for assessing a loan applicant's ability to repay the loan; this has enabled the management to ensure proper financial performance. Still, 24(9.1%) were not sure and 58(21.9%) were in disagreement. Therefore, credit risks analysts should always evaluate the creditworthiness of new credit applicants and monitor the ongoing financial performances of existing credit customers.

# FINANCIAL PERFORMANCE

This section analyses, presents and interpret finding on the independent variable (financial performance) in WSACCO - Entebbe Branch. Descriptive statistics such as frequency tables with percentages were used to analyse data collected on this variable.

# Proper internal auditing has led to profit maximisation

The study asked whether proper internal auditing has led to profit maximisation in WSACCO-Entebbe Branch, their responses were as reflected in the table 7.11.

# Table 7.11: Proper internal auditing has led to profit maximisation

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 51 | 19.2 | 19.2 |
| Disagree | 30 | 11.3 | 30.5 |
| Neutral | 25 | 9.4 | 39.9 |
| Agree | 35 | 13.2 | 53.1 |
| Strongly Agree | 124 | 46.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to table 7.11, the majority 159(60.1%) of the respondents were in agreement that proper internal auditing has led to profit maximisation in WSACCO-Entebbe Branch. It has helped WSACCO-Entebbe accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of credit risk management, control, and governance processes, this has helped the SACCO to increase profits, thus improved financial performance. However, 25(9.4%) were not sure and 81(30.5%) of the respondents were in disagreement. This indicates that there other factors that has led to the profitability of WSACCO-Entebbe Branch rather internal auditing and these include; low interest rates, source of funds (public funds) and so on.

# Internal auditing has led to improved financial accountability

When dealing with money on behalf of others, accountability is crucial. Respondents were asked whether internal auditing has led to improved financial accountability in WSACCO-Entebbe Branch. Their responses were as shown in the table 7.12.

# Table 7.12: Internal auditing has led to improved financial accountability

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 37 | 13.9 | 13.9 |
| Disagree | 37 | 13.9 | 27.8 |
| Neutral | 29 | 10.9 | 38.7 |
| Agree | 76 | 28.7 | 67.4 |
| Strongly Agree | 86 | 32.6 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Study field in table 7.12 present that the majority 162(61.3%) of the respondents generally agreed that internal auditing has led to improved financial accountability in WSACCO-Entebbe Branch. This means that internal auditing department has helped the entire management to define financial accountability structure which serves as the foundation for establishing effective financial processes in WSACCO-Entebbe Branch. They further states that when there is an improvement in audit quality, financial accountability automatically improves. However, 29(10.9%) were not sure and 74(27.8%) of the respondents disagreed. Respondents further elaborated that the officials given responsibility to manage the finance need to be able to show that they are being good stewards of what is entrusted to them. It is important that they are protected from being tempted to use the public money for their own purposes, this help the SACCO to guarantee effectual financial performance.

# Internal auditing has led to transparency in all credit activities

On the question whether the internal auditing has led to transparency in all credit activities conducted at WSACCO-Entebbe Branch. Their responses were as shown in the table 7.13.

# Table 7.13: The internal auditing has led to transparency in all credit activities.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 35 | 13.2 | 13.2 |
| Disagree | 27 | 10.2 | 23.4 |
| Neutral | 15 | 5.7 | 29.1 |
| Agree | 106 | 40.0 | 69.1 |
| Strongly Agree | 82 | 30.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

According to findings in table 7.13, the majority 188(70.9%) of the respondents have similar opinion that internal auditing has led to transparency in all credit activities conducted at WSACCO-Entebbe Branch. This means that the SACCO provides the stakeholders with all relevant information on its strategy, assessments and policy decisions as well as its procedures in an open, clear and timely manner. However, 15(5.7%) were not sure and 62(23.4%) of the respondents disagreed. Therefore, internal auditors should perform their works honestly to the SACCO. They should respect the SACCO's policy, decision as well as procedure, and manual, this enable the SACCO to ensure efficient and effective financial performance.

# WSACCO Policies are complied with to ensure improved financial performance

Compliance is the process of making sure your organization and employees follow applicable laws, regulations, standards, and ethical practices. On the question whether WSACCO Policies are complied with to ensure improved financial performance, their responses were as summarised in the table 7.14

# Table 7.14: WSACCO Policies are complied with

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Cumulative Percent |
| Valid | Strongly Disagree | 49 | 18.5 | 18.5 |
| Disagree | 42 | 15.8 | 34.3 |
| Neutral | 15 |  5.7 | 40.0 |
| Agree | 40 | 15.1 | 55.1 |
| Strongly Agree | 119 | 44.9 | 100.0 |
| Total | 265 | 100.0 |  |

Source: Field Data, 2021

Findings in table 7.14 present that 159(60%) of the respondents agreed that WSACCO Policies are complied with to ensure improved financial performance. This means that employees follow and fulfill implemented policies such as credit policy, internal controls, code of conduct and so on. They further revealed that the SACCO set internal policies and procedures to enable all employees and members to comply with laws, rules, and regulations or uphold the SACCO’s reputation. Though, 15(5.7%) were not sure whether are complied or not and 91(34.3%) of the respondents disagreed. This means that some officials at the branch have failed to follow and comply with the implemented WSACCO policies and procedures.

# MULTIPLE REGRESSION ANALYSIS

The general hypothesis was tested to establish whether there is a relationship between Internal Auditing and Financial Performance in Wazalendo SACCO-Entebbe Branch. The analysis applied the Statistical Package for Social Scientists (SPSS) to compute the measurements of the multiple regressions for the study. This hypothesis has been tested using various techniques such as model summary, correlation, Analysis of variance (Anova) and coefficients. The findings are provided below:

# Correlations

Results of the correlation analysis indicate that there is a significant and positive relationship between internal auditing and financial performance as indicated in the table 7.15. The result of correlations (r=0.787, P<0.000) members and staff complies with internal audit standards; (r=0.793, P<0.000) shows that monitoring and control activities enhance financial performance of WSACCO-Entebbe Branch; (r=0.789, P<0.000) indicates that credit risk management practices enhance financial performance of Wazalendo SACCO-Entebbe Branch and (r=0.784, P<0.000) for financial performance, this implies due to fulfilling three (3) sub-independent variables, WSACCO-Entebbe Branch has ensured effective financial performance.

# Table 7.15: Correlations between variables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Compliance with internal audit standards | Monitoring and control activities | Credit risk Management Practices | Financial Performance |
| Compliance with internal audit standards | Pearson Correlation | 1 | .787\*\* | .784\*\* | .789\*\* |
| Sig. (2-tailed) |  | .000 | .000 | .000 |
| N | 265 | 265 | 265 | 265 |
| Monitoring and control activities | Pearson Correlation | .787\*\* | 1 | .793\*\* | .793\*\* |
| Sig. (2-tailed) | .000 |  | .000 | .000 |
| N | 265 | 265 | 265 | 265 |
| Credit risk Management Practices  | Pearson Correlation | .784\*\* | .793\*\* | 1 | .789\*\* |
| Sig. (2-tailed) | .000 | .000 |  | .000 |
| N | 265 | 265 | 265 | 265 |
| Financial Performance | Pearson Correlation | .787\*\* | .793\*\* | .787\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 |  |
| N | 265 | 265 | 265 | 265 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

# Model Summary

The model summary shows the summary of the regression analysis as shown in the regression model. Below are the findings in the table 7.16:

# Table 7.16: Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .794a | .630 | .629 | .50963 |
| a. Predictors: (Constant), compliance with IAS, Monitoring and Control Activities, Credit Risk Management Practices |

In order to explain the percentage of variation in the dependent variable (financial performance) as explained by the independent variables. From the results of the analysis, the results show that the independent variables (compliance with IAS, Monitoring and Control Activities, Credit Risk Management Practices) contributed to 79.4% of the variation in financial performance as explained by adjusted R Square of 62.9% which shows that the model is a good prediction.

# Analysis of Variance (ANOVA)

The study conducted an analysis of variance, in order to test the impact of the relationship between internal auditing and financial performance of Wazalendo SACCO. The findings were as shown in the table 7.17.

# Table 7.17: ANOVAa

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 7209.641 | 3 | 2653.214 | 6577.376 | .001a |
| Residual | 87.710 | 236 | .372 |  |  |
| Total | 7297.352 | 239 |  |  |  |
| a. Dependent Variable: Financial Performance |
| b. Predictors: (Constant), compliance with IAS, Monitoring and Control Activities, Credit Risk Management Practices. |

The result of the findings in table 7.17 revealed that the level of significance was .001(a) this implies that the regression model is significant in predicting the relationship internal auditing and financial performance of Wazalendo SACCO-Entebbe Branch. By the help of an F-test table, the tabulated value for (F=6577.376) meaning that the model was statistically significant.

# Coefficients

This table shows the level of significance on the variables, it also provides the standardized and unstandardized coefficients are shown in the table 7.18.

# Table 7.18: Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .259 | .165 |  | 1.575 | .117 |
| Compliance with IAS | .130 | .022 | .267 | 5.911 | .000 |
| Monitoring and Control Activities | .352 | .033 | .726 | 10.654 | .001 |
| Credit Risk Management Practices | .002 | .035 | .004 | .063 | .005 |
| a. Dependent Variable: Financial Performance |

From table 7.18, the researcher sought to establish the extent to which internal auditing standards impact on financial performance of WSACCO-Entebbe Branch. From the above regression model holding all the other factors constant, financial performance is measured by the efficiency and effective implementation and compliance of internal audit standards, monitoring and control activities and credit risk management practices. The results of the multiple regression model shows that there is a positive relationship between internal audit standard and financial performance of WSACCO-Entebbe Branch. This implies that a single unit increase in any of the independent variables results into a corresponding increase in financial performance of WSACCO-Entebbe Branch.

The regression analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the corresponding probability value obtained and α=0.05. If the probability value was less than α, then the predictor variable was significant but from the above analysis; the results above shows that the variables were significant since their corresponding predictor values were below 5% apart from credit risk management practices which had 6% meaning that an inverse relationship existed between internal auditing and financial performance of Wazalendo Savings and Credit Cooperative.

# CHAPTER EIGHT

# TOWARDS HARMONIZING INTERNAL AUDITING AND FINANCIAL PERFORMANCE IN SAVINGS AND CREDIT COOPERATIVES

# Introduction

This chapter is towards harmonizing internal auditing and financial performance in savings and credit cooperatives (SACCO).

# Internal Auditing in SACCO

In SACCO, The mission of the internal audit is to ensure that the SACCO’s operations are conducted according to standards by providing an independent and objective assurance function and by advising on best practice. The department takes care of planning, implementation, and examination of internal auditing matters, and participates in the formulation and revision of operating and management regulations.

Millchamp (2006) defined internal auditing as an independent appraisal of activities within an organization for the view of operations as a source to management it is a management control which functions by measuring and evaluating the effectiveness of other control. This means that an internal auditor should be independent of any manipulations or distractions from the managements activities or others, thereby enabling him to determine whether the management policies are being adhered by the several department in the organization if and whenever there is any deviation policies, the internal auditors check it. Howard (2009) in his own contribution states that “The internal auditors is an employee of the business engaged in the work on behalf of the organization, although the nature of his work require that should be given an element of independence while engaged in it”. This means that the internal auditor is engaged as a staff of the organization but should be given a level of independence. The institute of internal auditors (IIA) defined internal auditing as the independence appraisal of activity within an organization for the review of accounting, financial and other operations as a basis for protective and constructive services to the management. The management of internal auditor here is independent personnel of the organization who appraises the activities of the department and proper, economic efficient and effective use of resources

According to Robertson (2006) Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (2006) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Mosley (2015) states that the internal audit department of the SACCO has fulfill these duties and responsibilities: Designing the internal control systems and procedures of the SACCO, Reviewing and reporting on the adequacy of internal audit system and the financial matters of the Sacco society, Advising the Board on the weaknesses of the existing internal control systems and procedures, Ensuring that all the policies of the Sacco are properly implemented and adhered to, preparing periodical internal audit reports revealing whether the internal control systems and procedures are being followed, evaluating the performances of all departments and making recommendations whether their performance is up to required standards, liaising with the external auditor when need arises, examining all cheques, cash payments and their authorization to ensure that no irregularity is made.

Mosley further affirms that SACCO internal audit department ensure completeness and accuracy of all financial, statistical and accounting records, making surprise checks on physical cash in hand, liaising with the audit committee in the course of operations of the Sacco as required by law, vouching and verifying all purchases, checking the accuracy of Reconciliations between the employer cheques and the by-product monthly, examining whether the loans are properly attached for principal amount and interest, Auditing the SACCO reconciliation statements, checking whether shares, deposits, loans repayments and interest are properly posted, receiving cheques from accounts office and examining them to determine whether they are properly drawn before endorsing, examining whether the assets of the society are safely kept, carrying out periodic stock taking and making reports to management, verifying the accuracy of accounting data, vouching and verifying all defaulted loans to ensure that they are properly recovered, ensuring that all loan clearances are properly computed and posted and examining the members’ files to ensure they contain the relevant documents.

According to Cai Chun (2007) Independence is the essence of auditing. An internal auditor must be independent of both the personnel and operational activities of an organization. Otherwise, the integrity of the auditor’s opinions, conclusions and recommendations would be suspect. So, independence is necessary for the effective achievement of the function and objective of internal audit.

# Compliance with IAS

Internal audit Standards are principles-focused, mandatory requirements consisting of: Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.

Glazer and Janie (2010) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Ridley and D’Silva (2007) found in the UK that complying with professional standards is the most important contributor to IA’s added value. Standards for audits and audit-related services are published by the IIA (2008) and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditor~ also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and Governance using a systematic and disciplined approach.

The head of the internal audit department should be responsible for ensuring that the department complies with sound internal auditing standards and with a relevant code of ethics. The internal audit function should be accountable to the board, or its audit committee, on all matters related to the performance of its mandate as described in the internal audit charter.

The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department’s employees must always be ensured, as must their regular training. The internal audit department is responsible to the SACCO’s management and its board of directors, possibly also to the audit committee, if the SACCO has one. These bodies of the SACCO should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department’s objectives.

SACCO supervisors must be satisfied as to the effectiveness of a SACCO’s internal audit function that policies and practices are followed and that management takes appropriate and timely corrective action in response to internal control weaknesses identified by internal auditors. An internal audit function provides vital assurance to a SACCO’s board of directors and senior management (and SACCO supervisors) as to the quality of the SACCO’s internal control system. In doing so, the function helps reduce the risk of loss and reputational damage to the SACCO.

The internal audit department in SACCO must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the SACCO. Every SACCO should have formalized principles of internal audit providing for its position and powers in the framework of the SACCO. There should here be codified the scope of work of internal auditors, the position of the whole department in the SACCO’s organizational structure, relations with other control departments.

Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the SACCO’s operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the SACCO. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided.

Supervisors should have regular communication with the SACCO’s internal auditors to discuss the risk areas identified by both parties, understand the risk mitigation measures taken by the SACCO, and understand weaknesses identified and monitor the SACCO’s responses to these weaknesses. SACCO supervisors should regularly assess whether the internal audit function has sufficient standing and authority within the SACCO and operates according to sound principles.

The SACCO’s board of directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control system and, accordingly, the board should support the internal audit function in discharging its duties effectively**.**

# Monitoring and Control Activities

Since credit saving is a dynamic, rapidly evolving industry, SACCOs must continually monitor and evaluate their internal control systems in the light of changing internal and external conditions, and must enhance these systems as necessary to maintain their effectiveness. In complex, multinational organisations, senior management must ensure that the monitoring function is properly defined and structured within the SACCO.

Monitoring the effectiveness of internal controls can be done by personnel from several different areas, including the business function itself, financial control and internal audit. For that reason, it is important that senior management makes clear which personnel are responsible for which monitoring functions. Monitoring should be part of the daily activities of the SACCO but also include separate periodic evaluations of the overall internal control process. The frequency of monitoring different activities of a SACCO should be determined by considering the risks involved and the frequency and nature of changes occurring in the operating environment.

Ongoing monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the system of internal control. Such monitoring is most effective when the system of internal control is integrated into the operating environment and produces regular reports for review. Examples of ongoing monitoring include the review and approval of journal entries, and management review and approval of exception reports.

Control activities should be an integral part of the daily activities of a SACCO. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorisations; and, a system of verification and reconciliation.

A system of effective controls is a critical component of SACCO management and a foundation for the safe and sound operation of credit and saving organization. A system of strong internal controls help to ensure that the goals and objectives of a SACCO will be met, that the SACCO will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system also help to ensure that the SACCO 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 SACCO’s reputation.

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 SACCO; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to senior management.

# Credit Risk Management Practices

The importance of credit risk management is increasing with time because of some reasons like economic crises and stagnation, company insolvencies, infraction of rules in company accounting and audits, growth of off-balance sheet derivatives, declining and volatile values of collateral, borrowing more easily of small firms, and financial globalization (Bofondi and Gobbi, 2013).

The sound practices set out specifically to address the following areas: (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. Although specific credit risk management practices may differ among SACCOs depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. These practices should also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit risk. SACCOs have adopted the following credit risk management techniques or practices;

**Credit Criteria:** Credit criteria are factors employed to determine a borrower’s creditworthiness or ability to repay debt. These factors include income, amount of existing personal debt, number of accounts from other credit sources, and history. A lender is free to use any credit-related factor in approving or denying a credit application so long as it does not violate the equal credit protections.

Swarens (2010) suggested that the most pervasive area of risk is an overly aggressive lending practice. It is a dangerous practice to extend lending term beyond the useful life of the corresponding collateral. Giving out loans to borrowers who are already overloaded with debt or possesses unfavorable credit history can expose SACCOs to unnecessary default and credit risk. To reduce these risks, SACCOs take into consideration some common applicants’ particulars such as debt to income ratio, business history and performance record, credit history, and for individual loan applicants their time on the job or length of time at residence.

**Credit Culture**: Sound and effective credit risk management is enhanced by a well established credit culture which consists of a policy that guides credit ethics, a practice that drives lending and an audit that protects assets and credit mechanism. Mueller (2000), on a study to risk management and credit culture, stressed that the significance of installing a sound credit culture is vital in order to track SACCO’s lending strategy and objectives. Credit culture must match with and be built upon proven principles and high standards and must also be sufficiently flexible to compensate for change (Mueller, 2003).

Morsman (2005) and Swarens (2010) on their study on managing risks and defending the loan portfolio pointed out that credit culture has emerged as an important determinant of credit quality for all types of lending. Loan officers have to be responsible and professional in order to prevent from being bias when evaluating loan applications. Many commercial SACCOs have enhanced effective credit culture by ensuring that the reward system compensates good ethical practices and penalizes unacceptable and flawed procedures.

**Training of Credit Officers:** Training and development of credit loan officers is also considered as another important area of credit risk management. Officers should have good knowledge of consumer protection laws and the ability to identify alternative solutions to problems. Swarens (2010) on a study to managing risks in consumer loan portfolio, pointed out that a fully trained loan officer should have superior presentation skills, good knowledge to master the fundamentals of loan administration. Loan officers should also have the ability to identify remedies to a problem to ensure that customer receive the best type of advice and service.

A study by Morsman(2015) on defending the loan portfolio, concluded that SACCO managers must learn from past mistakes and must be equipped with skills and knowledge to master the fundamentals of loan administration.

Farrissey (2013) on study to commercial credit training in a community SACCOs suggested that a training program for community SACCOs is vital to avoid the stormy seas of imprudent lending. Training of credit officers by SACCOs has been adopted as one of the most effective ways of mitigating Nonperforming loans and their provisions as staff are trained on risk appraisal techniques.

**Credit Control:** The maintenance of asset quality is fundamental to sound operation of SACCOs. Top management team establishes policies and procedures which ensure well documented credit granting process, strong portfolio management, effective credit review, loan classification procedures and appropriate methodology for dealing with problem exposure (Market Intelligence SACCO Survey, 2011).

Sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards and to apply a common language and methodology for assessing risk, pricing, documentation, securities, authorization and ethics for measurement and reporting of non-performing assets, loan classification and provisioning. The credit policy should set out the SACCO’s lending philosophy and specific procedures and means of monitoring the lending policy (Simonson, 2006).

SACCOs have been on the lookout of early warning signs of loans most likely to be bad debts. Information which leads a lender to suspect that a borrower is in financial difficulty can come from many sources but will usually arise from carrying out monitoring and control procedures (Rouse, 2009).

Some of the signs of possible delinquency are:- late payment of principal and interest, unauthorized overdraft excess, significant changes in account turnover, hardcore balances, unpaid cheque (in and out), high gearing ratio, operating losses, abnormal delays in submitting periodic financial statements, unexplained change of borrower’s attitude towards the SACCOs among others. The information may be obtained from internal records, through interviews with the borrower, audited accounts and management accounts. SACCOs enhance credit control through analysis of; borrower’s reputation, volatility of earnings, leverage or borrower’s capital structure among other factors.

**Risk Assessment**: SACCOs gather adequate information about potential customers as a way of assessing the credit risk exposure. The information gathered guide SACCOs in assessing the probability of borrower’s default and pricing of the loan accordingly (Saunders, 2008). Much of this information is gathered during loan documentation. SACCOs even go beyond information provided by the borrower through seeking additional information from the third parties like the credit rating agencies and credit reference bureaus.

Rouse (2009) stated that applying “CAMPARI” technique during the initial assessment of borrower will help in determining whether a loan is good or bad, recoverable or not recoverable. CAMPARI is a technique by which the viability of proposal is assessed and evaluated. It is an acronym that stands for character, ability, Margin, purpose, amount, repayment and insurance (collateral).

# Financial Performance

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.

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.

# CHAPTER NINE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

**Introduction**

This chapter presents the summary of findings from the field, basing on the study objectives; it also presents the conclusions and recommendations made to advance internal auditing and financial performance SACCOs in Uganda, focusing on Wazalendo Savings and Credit Cooperative-Entebbe Branch.

# Summary of Findings

The study used field data collected from self-administered questionnaires and interview guide. Quantitative data was analyzed using descriptive statistics while qualitative data was analyzed using content analysis. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 25). Analysis was, then, based on descriptive statistics. Multiple regression analysis was used to establish the relationship between internal auditing and financial performance of WSACCO-Entebbe Branch.

A total of 286 questionnaires were distributed to selected respondents. Only 272 out of distributed questionnaires were returned to the researcher. After the exclusion of incomplete questionnaires, only 265 were considered for data analysis. The results from this analysis are presented below:

# Findings on demographic characteristics of respondents

Study findings on bio-data of respondents revealed that the majority 63.8% of the respondents was male, 42.2% aged 20 to 30 years, 84.1% were members of WSACCO members, 39.6% have certificates in different courses and 37.4% were cohabiting and 38.5% have worked with the SACCO for more than 5 years. All respondent were in line of providing accurate and reliable information on internal auditing and financial performance.

**Findings on whether internal audit standards are complied with to enhance financial performance in Wazelendo SACCO-Entebbe Branch.**

The results on this objective indicated that 60.8% of the respondents agreed that WSACCO Entebbe has updated internal auditing standards manual in place to ensure effective performance. 63.8% of the respondents have the same opinions that all departments of WSACCO Entebbe comply with the implemented department audits to ensure proper financial performance; 57.8% of the respondents concurred that internal auditing (IA) department ensures that WSACCO fulfill all relevant aspects of the internal audit manual; 55.5% accepted that financial records are maintained in accordance with the established accounting regulations; 66.7% of the respondents had similar attitude and agreed that whether SACCO has well qualified internal auditors to ensure financial performance.

Research findings on this objective further indicated that 57% of the respondents agreed that the Internal Audit department of WSACCO Entebbe Branch is independent from the activities it controls to ensure effective financial performance; 61.9% of the respondents had similar opinion that there is proper monitoring of finances in WSACCO Entebbe to ensure financial performance; 55.2% of the respondents noted that internal Auditors at WSACCO-Entebbe exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined to the Board of Directors and other staff; 62.6% of the respondents agreed that internal auditing department acts with high degree of integrity in execution of duties in SACCO and 78.1% believed that internal audit department periodically reviews the systems established to ensure compliance with those policies, plans, procedures laws and regulations to ensure effective performance of WSACCO finance.

**Findings on whether monitoring and control activities enhance financial performance of Wazelendo SACCO-Entebbe Branch**

Findings on second objective presented that 63.4% of the respondents agreed that there is an independent team monitors WSACCO –Entebbe Branch finances to ensure financial performance; 69.8% of the respondents generally agreed that the management is responsible for approving and periodically reviewing and monitoring the overall strategies and significant policies of the WSACCO-Entebbe Branch to ensure financial performance; 65.7% of the respondents have the same opinion that monitoring of key credit risks is part of the daily activities conducted by the management at Wazelendo SACCO-Entebbe Branch, 59.3% of the respondents agreed that internal audit (IA) department monitors the implementation of efficient and effective control activities to ensure proper financial performance.

Research findings further indicated that 58.4% of the respondents agreed that management of WSACCO-Entebbe is responsible for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the SACCO; 53.2% of the respondents accepted that internal auditing department acts with high degree of integrity in execution of duties in WSACCO – Entebbe; 58.8% agreed that control activities are designed to address the risks that WSACCO-Entebbe management identified through the risk assessment process; 69.4% of the respondents agreed that the BoDs is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained in WSACCO Entebbe Branch and 57.7% of the respondents agreed that control activities verify whether control policies and procedures are being complied with in WSACCO-Entebbe Branch.

**Findings on whether credit risk management practices enhance financial performance of Wazelendo SACCO-Entebbe Branch.**

Study findings on third objective of the study revealed that 71.7% of the respondents commonly agreed that WSACCO – Entebbe Branch has existing credit policy to ensure proper issuance of loans; 70.9% of the respondents have similar opinion that members participating in formulation of loan policies at WSACCO – Entebbe Branch; 68% of the respondents agreed that WSACCO-Entebbe Branch management involves internal auditors and other parties in the risk identification process; 74.7% positively accepted that credit risks are properly analysed and assessed at WSACCO- Entebbe Branch; 58.2% of the respondents agreed that risk monitoring helps the WSACCO management to discover mistake at an early stage. This means that risk action plan has been created and timeline is also created to ensure that check-ups are done in a timely fashion in the SACCO.

Study findings on this objective further indicated that 60% of the respondents generally agreed that risk analysis is a comprehensive risk measurement and mitigation method at WSACCO –Entebbe Branch; 35.9% of the respondents agreed that credit management policy ensure that all credits are monitored and reviewed periodically to ensure proper financial performance at WSACCO-Entebbe Branch; 52.1% of the respondents agreed that credit risk management practices are in line with proper internal controls in WSACCO-Entebbe Branch; 61.9% of the respondent generally agreed that risk identification assists the WSACCO-Entebbe Branch management to develop risk management strategy to allocate resources efficiently and 69% of the respondents generally agreed that WSACCO Entebbe Branch has well qualified and skilled staff in managing credit risks, this has helped the SACCO to ensure effective financial performance.

# Findings on Financial Performance

Study findings on dependent variable presented that 60.1% had similar opinions that proper internal auditing has led to profit maximisation in WSACCO-Entebbe Branch. It has helped WSACCO-Entebbe accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of credit risk management, control, and governance processes, this has helped the SACCO to increase profits, thus improved financial performance; 61.3% of the respondents agreed that internal auditing has led to improved financial accountability in WSACCO-Entebbe Branch; 70.9% of the respondents had similar opinion that internal auditing has led to transparency in all credit activities conducted at WSACCO-Entebbe Branch; 60% of the respondents agreed that WSACCO Policies are complied with to ensure improved financial performance. This means that employees follow and fulfill implemented policies such as credit policy, internal controls, code of conduct and so on.

# Conclusions

Based on the findings, it can be inferred that, in order to ensure successful financial performance in WSACCO-Entebbe Branch, the management should ensure that internal audit is well understood and developed in all departments to ensure improved financial performance. The study conclusions were drawn from the above findings of the study objectives.

**Internal audit standards are complied with to enhance financial performance in Wazelendo SACCO-Entebbe Branch.**

The study concluded that WSACCO Entebbe has updated internal auditing standards manual in place to ensure effective performance; all departments of WSACCO Entebbe comply with the implemented department audits to ensure proper financial performance; internal auditing (IA) department ensures that WSACCO fulfill all relevant aspects of the internal audit manual; financial records are maintained in accordance with the established accounting regulations; WSACCO-Entebbe has well qualified internal auditors to ensure financial performance. Internal Audit department of WSACCO Entebbe Branch is independent from the activities it controls to ensure effective financial performance and there is proper monitoring of finances in WSACCO Entebbe to ensure effective financial performance.

It was also found out that internal Auditors at WSACCO-Entebbe exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined to the Board of Directors and other staff; internal auditing department acts with high degree of integrity in execution of duties in SACCO and internal audit department periodically reviews the systems established to ensure compliance with those policies, plans, procedures laws and regulations to ensure effective performance of WSACCO finance.

**Monitoring and control activities enhance financial performance of WSACCO-Entebbe Branch.**

The study on second objective concluded that there is an independent team monitors WSACCO–Entebbe Branch finances to ensure financial performance; the management is responsible for approving and periodically reviewing and monitoring the overall strategies and significant policies of the WSACCO-Entebbe Branch to ensure financial performance; monitoring of key credit risks is part of the daily activities conducted by the management at WSACCO-Entebbe, internal audit (IA) department monitors the implementation of efficient and effective control activities to ensure proper financial performance.

The study concluded that management of WSACCO-Entebbe Branch is responsible for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the SACCO; internal auditing department acts with high degree of integrity in execution of duties in WSACCO – Entebbe; control activities are designed to address the risks that WSACCO-Entebbe management identified through the risk assessment process; the BoDs is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained in WSACCO Entebbe Branch and control activities verify whether control policies and procedures are being complied with in WSACCO-Entebbe Branch.

**Credit risk management practices on financial performance of WSACCO-Entebbe**

Study findings on third objective of the study concluded that WSACCO – Entebbe Branch has existing credit policy to ensure proper issuance of loans; members participating in formulation of loan policies at WSACCO – Entebbe Branch; WSACCO-Entebbe Branch management involves internal auditors and other parties in the risk identification process; credit risks are properly analysed and assessed at WSACCO- Entebbe Branch; risk monitoring helps the WSACCO management to discover mistake at an early stage.

Study findings on this objective further concluded that that risk analysis is a comprehensive risk measurement and mitigation method at WSACCO –Entebbe; credit management policy ensure that all credits are monitored and reviewed periodically to ensure proper financial performance at WSACCO-Entebbe; credit risk management practices are in line with proper internal controls in the SACCO-Entebbe; risk identification assists the WSACCO-Entebbe management to develop risk management strategy to allocate resources efficiently to ensure effective financial performance.

**Financial Performance**

Lastly, the study concluded that proper internal auditing has led to surplus maximisation in WSACCO-Entebbe Branch. It has helped WSACCO-Entebbe accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of credit risk management, control, and governance processes, this has helped the SACCO to increase profits, thus improved financial performance; internal auditing has led to improved financial accountability in WSACCO-Entebbe Branch; internal auditing has led to transparency in all credit activities conducted at WSACCO-Entebbe Branch; WSACCO Policies are complied with to ensure improved financial performance.

# Recommendations

Based on the above findings, the study makes the following recommendations;

The study recommended that in order to ensure that the internal audit is time-tested, only qualified and experienced accountants should be appointed head of the internal audit department of the SACCO.

The study further recommended that there should be training programs in SACCOs to ensure that all the SACCO employees are trained on new skills and competence increased in order to perform better. Training should be conducted to acrross support staff on the importance of internal auditing on financial performance.

The study recommended that management of the SACCO should also procure the latest ICT audit software that would enhance fast delivery of services and detection of frauds or any mischief in this field. Internal auditors should be fully trained on how to use the softwares and fresher courses should also be increased in this regard. Frequent upgrading of the softwares should be done to keep abreast with the changing technology.

The management of WSACCO should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor’s work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

The study also recommends that management of the SACCO should ensure that the internal audit provides the prospective auditors with a visual presentation and prepares booklets and brochures explaining the internal audit function.

The study revealed that SACCO review their credit policy yearly and half yearly and that employees are made aware of credit policies through credit manual, regular training, regular meeting and using supervision. The most popular method of creating awareness of credit policies to SACCO is regular training and credit manual.

Lastly, it is recommended that the head of the internal audit department should be responsible to the management/board in the SACCO with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

# Areas for the Further Research

The current study focused on the internal auditing and financial performance in saving and credit cooperatives (SACCOs) in Uganda, using as a case study of Wazalendo Savings And Credit Cooperative (WSACCO) – Entebbe Branch. It would be interesting to conduct a study on the determinants of internal audit and their implications on financial performance; this will shed more light on the appropriate model to choose when implementing better internal auditing practices that enhance financial performance. Other suggestions for further research include;

1. Risk Management and Performance of Saving and Credit Cooperatives.
2. Internal Auditing and Performance of Financial Institutions.

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# APPENDICES

# APPENDIX I: SELF ADMINISTERED QUESTIONNAIRE

**Dear respondent,**

I, **Nambuya Tabitha**, A student of Nkumba University conducting a study on “internal auditing on financial performance of SACCOs in Uganda, focusing on Wazalendo SACCO, as part of the requirement for the award of the Masters Degree of Accounting and Finance. Your response to the questions below will be treated with utmost confidentiality and all information will be used for only this purpose. The researcher is privileged to have you as respondents and the information given to the researcher is purely academic and will be treated with confidentiality.

**Section A: Demographics of Respondents**

1. Gender

a) Male b) Female

2. Education background

a) Certificate b) Diploma c) Degree d) Masters

3. Age

a) 20-30 b) 30—40 c) 40—50 d) 50+

4. How long have you worked in this organization

a) Less than 2 years b) Above 2 years c) Above 5 years

5. Department of Work? ...................................................................................................

**SECTION B: WHETHER INTERNAL AUDITING STANDARDS ARE COMPLIED WITH TO ENHANCE FINANCIAL PERFORMANCE IN WSACCO-ENTEBBE BRANCH.**

Kindly indicate the extent of agreement with each statement in regard to compliance of internal auditing standards and financial performance in Wazelendo SACCO-Entebbe Branch. Use a Likert scale of 1-5 where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | WSACCO-Entebbe Branch has updated internal auditing standards manual in place. |  |  |  |  |  |
| **2.** | All departments in WSACCO comply with the implemented department audit practices. |  |  |  |  |  |
| **3.** | The internal auditing department ensures that WSACCO implements all relevant aspects of the internal audit manual. |  |  |  |  |  |
| **4.** | The financial records are maintained in accordance with the established accounting regulations. |  |  |  |  |  |
| **5.** | WSACCO-Entebbe Branch has well qualified internal auditors to ensure financial performance. |  |  |  |  |  |
| **6.** | The internal audit department is independent from the activities it controls to ensure effective financial performance. |  |  |  |  |  |
| **7.** | There is proper monitoring of finances in WSACCO-Entebbe Branch to ensure financial performance. |  |  |  |  |  |
| **8.** | Internal Auditors in WSACCO exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined to the Board of Directors and other staff. |  |  |  |  |  |
| **9.** | Internal auditing department acts with high degree of integrity in execution of duties in WSACCO.  |  |  |  |  |  |
| **10.** | Internal auditing department periodically reviews the systems established to ensure compliance with those policies, plans, procedures laws and regulations. |  |  |  |  |  |

**SECTION C: WHETHER MONITORING AND CONTROL ACTIVITIES ENHANCE FINANCIAL PERFORMANCE OF WAZELENDO SACCO-ENTEBBE BRANCH.**

Kindly indicate the extent of agreement with each statement in regard to monitoring and control activities and financial performance in Wazelendo SACCO-Entebbe Branch. Use a Likert Scale of 1-5 where 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4 = Agree and 5=Strongly Agree.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | There is an independent team monitor WSACCO finances to ensure financial performance. |  |  |  |  |  |
| **2.** | The management is responsible for approving and periodically reviewing and monitoring the overall strategies and significant policies of the WSACCO to ensure financial performance. |  |  |  |  |  |
| **3** | Monitoring of key credit risks is part of the daily activities conducted by the management at Wazelendo SACCO-Entebbe Branch. |  |  |  |  |  |
| **4.** | The internal audit department monitors the implementation of efficient and effective control activities to ensure proper financial performance. |  |  |  |  |  |
| **5.** | Management of WSACCO-Entebbe is responsible for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred. |  |  |  |  |  |
| **6.** | Internal auditing department acts with high degree of integrity in execution of duties in WSACCO – Entebbe Branch.  |  |  |  |  |  |
| **7.** | Control activities are designed and implemented to address the risks that WSACCO identified through the risk assessment process. |  |  |  |  |  |
| **8.** | The BoDs is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained in WSACCO – Entebbe Branch. |  |  |  |  |  |
| **9.** | Control activities verify whether control policies and procedures are being complied with in WSACCO. |  |  |  |  |  |

**SECTION D: WHETHER CREDIT RISK MANAGEMENT PRACTICES ENHANCE FINANCIAL PERFORMANCE OF WAZELENDO SACCO-ENTEBBE BRANCH.**

Kindly indicate the extent of agreement with each statement in regard to credit risk management practices and financial performance in Wazelendo SACCO-Entebbe Branch. Use a Likert scale of 1-5 where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4 = Agree and 5 = Strongly Agree.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | WSACCO – Entebbe Branch has existing credit policy to ensure proper issuance of loans. |  |  |  |  |  |
| **2.** | At WSACCO – Entebbe Branch, members participating in formulation of loan policies. |  |  |  |  |  |
| **3.** | WSACCO management involves internal auditors and other parties in the risk identification process. |  |  |  |  |  |
| **4.** | Credit risks are properly analysed and assessed by the BOD at WSACCO – Entebbe Branch. |  |  |  |  |  |
| **5.** | Risk monitoring helps the WSACCO management to discover mistake at an early stage. |  |  |  |  |  |
| **6.** | Risk analysis is a comprehensive risk measurement and mitigation method at WSACCO –Entebbe Branch. |  |  |  |  |  |
| **7.** | Credit management policy ensures that all credits are monitored and reviewed periodically. |  |  |  |  |  |
| **8.** | Credit risk management practices are in line with proper internal controls. |  |  |  |  |  |
| **9.** | Risk identification assists the WSACCO management to develop risk management strategy to allocate resources efficiently. |  |  |  |  |  |
| **10.** | WSACCO –Entebbe Branch has well qualified and skilled staff in managing credit risks.  |  |  |  |  |  |

**SECTION E: FINANCIAL PERFORMANCE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| **1.** | Proper Internal auditing has led to profit maximisation in WSACCO-Entebbe Branch. |  |  |  |  |  |
| **2.** | Internal auditing has led to improved financial accountability in WSACCO-Entebbe Branch. |  |  |  |  |  |
| **3.** | Internal auditing has led to financial growth in WSACCO-Entebbe Branch. |  |  |  |  |  |
| **4.** | The internal auditing has led to transparency in all credit activities conducted at WSACCO-Entebbe Branch. |  |  |  |  |  |
| **5.** | WSACCO Policies are complied with to ensure improved financial performance. |  |  |  |  |  |

# APPENDIX II: INTERVIEW GUIDE

1. Do you understand these terms internal auditing and financial performance?
2. Does WSACCO Entebbe Branch have specific credit management policies for managing loan risks?
3. Quarterly reporting of audit findings is often adopted in WSACCO Entebbe Branch.
4. Does Wazalendo SACCO have registered improved interests on loans due to internal auditing?
5. What are the problems faced by the internal audit function in WSACCO Entebbe Branch?

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THANKS FOR YOUR COOPERATION