INTERNAL CONTROLS AND PERFORMANCE OF POST BANK.U.LTD: A CASE STUDY OF KANUNGU AND NTUNGAMO BRANCHES.

By

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11/MMSFM/26/054

A Dissertation submitted to the school of Management Science in fulfillment of the requirements for the award of the Masters Degree in Management Studies (Financial Management) of Uganda Management Institute.

February 2014

DECLARATION

I Richard Semanda Junior, hereby declare that this dissertation is my original work and has never been submitted for any award in any other institution.

Signature ………………………………………….. … Date …………………………..

APPROVAL

This dissertation has been submitted with our approval as a supervisors appointed by Uganda Management Institute.

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DEDICATION

I dedicate this research report to the Almighty God, who has always opened opportunities for me and my family members.

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LIST OF ACRONYMS

%	Percentage
B OU	Bank of Uganda
CVI	No. of items regarded relevant by judges
F	Number in the category
f_o	Frequency Observed
H_0	Null Hypothesis
H_1	Alternative Hypothesis
HRM	Human Resource Management
Ltd	Limited
N	Total population
n	Total number of respondents wanted.
PBU	Post Bank Uganda
Sh.	Shilling
UN	United Nations
US	United States

ABSTRACT

This study was about the relationship between internal controls and performance of Post bank using a case study of Kanungu and Ntungamo branches. The study was guided by the following research objectives; to assess the relationship between control environment and performance of Post Bank Kanungu and Ntungamo, to examine the relationship between control activities and performance on Post Bank Kanungu and Ntungamo and to ascertain the relationship between risk management and performance of Post Bank Kanungu and Ntungamo. A population of 50 personnel was chosen from which a sample of 44 respondents was selected. All respondents were reached but 37 of 38 distributed questionnaires were collected and only 35 were usable. A correlation case study design was used. The respondents were selected randomly and purposively. Primary data was collected using the Questionnaires with support from an interview guide and documentary review. Data was analyzed using SPSS package and descriptive, correlation and regression analysis were carried to establish relationships between the variables. Findings revealed that there was a significant positive relationship between the entire study variables control environment, control activities, risk assessment and performance of Post bank Control environment explaining forty one percent, control activities fifty nine percent and risk management sixty five percent. The study concluded that there is both moderate and high positive relationship between control environment, control activities and risk management. Based on the findings it is recommended that Post Bank Kanungu and Ntungamo should upgrade their internal control design and pay attention during recruitment of staff as this could be a red flag to indentifying fraud, strengthen the approved ethical code of conduct, ICT-department to

give authorization rights to the right people and management should seek staff opinion in designing the risk management policy.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study was set to examine the relationship between internal controls and performance of Post Bank using a case study of Kanungu and Ntungamo branches. Internal controls in this study were conceived as the independent variable whereas performance of Post bank was the dependent variable. Internal controls were measured in terms of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations while performance of Post bank was measured in terms of profitability, accuracy of financial reports and audit rating for the period.

This chapter presents the background to the study, statement of the problem, the purpose of the study, objectives of the study research questions, the hypotheses, scope of the study, significance, justification and operational definition of terms and concepts.

1.1 Background of the study

1.1.1 Historical Background.

Although the concept of internal controls is said to trace its history back to the beginning of the 20^{th} century in the U.S. when audit on financial statements came into being, its present day interpretation differs from early days owing to changes in the business environment.

In the past, the concept of ‘’internal control’’ was limited to that of ‘’internal checks’’. In 1930, the system of internal check was defined as the coordination of a system of accounts and related office procedures in such a manner that the work of one employee independently performing his own prescribed duties continually checks the works of the other to ascertain elements involving possibility of Fraud (Sawyer et al.2003). It is the first definition to indicate the importance of internal controls in helping to detect or prevent fraud.

In the U.S., an earlier victory in the Spanish-American War brought about an expansion of the overall economy and the scale of enterprises in the U.S. after the turn of the century. Until those days, “detailed audit” was taken on all the target items as an audit of financial statements, but a rapid growth in corporate scale made it virtually impossible to continue the practice. Consequently, a sample test was introduced involving examination of samples taken from targets assuming that companies conduct their own inspection (system of checks and balances) whereby potential frauds and errors in the operations are mutually checked within organizations. The internal check system effectively marked the birth of the concept of internal control. In 1949, the American Institute of Certified Public Accounts (AICPA) broadened the definition of internal controls. Internal control was defined as the plan of the organization and all of the coordinate methods and measures adopted within a business to safe guard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

However, with the aim of minimizing litigation risk, the AICPA amendment in 1958 and 1972 focused management’s accountants and auditors’ attention on traditional internal accounting controls thus narrowing the focus of control. Big Audit failures in the 1980’s were influential in promoting re-evaluation of internal controls. The National Commission on Fraudulent financial Reporting(Tread way commission) in the US, the Commission to study the public’s expectations of Audits(Mac Donald Commission) in Canada and the Committee on the financial aspect of corporate Governance (Cadbury Report) in United Kingdom, were established to investigate the reason behind the large number of company failures, frauds and audit failures. Key findings from these reports highlighted the importance of having an effective internal control system and confirmed lack of consensus around the definition of internal controls.

This was followed by a publication in 1992 of the COSO frame work by the Committee of Sponsoring Organizations of Trade way Commission which cited three objectives on internal controls; the effectiveness and efficiency of business, the reliability of financial report and the compliance with applicable laws.

The Sarbanes-Oxley Act (SOX Act) was established in 2002 in response to the demise of Enron and WorldCom, requiring company management to assess the effectiveness of internal controls and disclose evidence documents.

In Japan the concept of internal controls came into being in 1945 in the wake of the world war 11 where it witnessed a host of major changes caused by the democratization of the economy.

In 1994, the Japanese institute of certified Public Accountants issued a report titled, the “Internal control “to provide operational guidelines for internal controls stipulated in the Reform Act of Auditing Standards of 1991.

In 2004, Japan witnessed numerous cases of false financial reports by listed companies, resulting in an argument to design internal control urgently to ensure reliability of financial reporting. As a result, the system of reporting internal controls was introduced under the Financial Instruments and Exchange Law enacted in June 2006. Generally called J-SOX, the new law required corporations to submit the management assessment of the effectiveness of internal control over financial reporting as an internal control report.

In Indonesia efforts to improve governance and internal controls were started in the period 2003-2004 when the constitution was revised and the Law 17/2003 on state finance, Law 1/2004 on the State Treasury, and Law of Audit and their following regulations were passed(Law No.15/2004 on Auditing Management and Accountability of State Finance).it provided clear definition and scopes of the state finance, the obligation for government to design and implement internal control and to provide financial accountability in a basic financial statement based on governmental accounting standards. The revised Constitution and Law of Audit gives a better role and authority for the Audit Board (BPK) to improve Indonesia's governance and internal control. This introduced seven important changes to include ;The definition and scope of the state finance are much clear and more comprehensive, A more appropriate structure of the budget was introduced, the government shall apply a treasury single account system, Financial statements should be prepared based on a governmental accounting standards, The time frame for submitting the financial statements and the Audit report is fastened and tighter and finally the government shall design and implement a governmental internal control system. In relation with this reform, the government created a new remuneration scheme for government employees as part of bureaucracy reformation in Indonesia (Allen and Daniel, 2001).

The development of internal controls in South Africa started with the country's democracy in 1994. They were introduced by a number of policies or legislative documents notably the South African constitution, which was adopted in 1996 and the draft White Paper on financial Management and expenditure Reform which was released in June 1996.

Prior to the end of industrial revolution in 1900 internal controls in Nigeria was almost limited to the government sector. Auditing was under taken with the intention of fraud detection. The increased economic growth achieved during the period of industrial revolution witnessed the emergency of professional managers who were separated from business ownership. The horizon of internal controls became widened because business owners needed the confidence from an independent person on the stewardship accounts rendered by managers.

In Uganda internal controls were first appreciated in 1969 when the Banking Act had become outdated and its provisions were deficient in my respects. The authority to license banks lay with the Minister of finance rather than BOU. The 1993 Financial Institutions Statute rectified most of these legislative defects. The statute covers credit institutions, building societies and development finance institutions, bringing all these financial institutions under the supervisory authority of BOU. It gave BOU more independence from the minister of Finance in licensing and regulating financial institutions although rejected applicants have a right of appeal to the minister who also must be consulted before prudential regulations are issued and before the BOU liquidates insolvent financial institutions. It is also flexible that the 1969 act in that it gives BOU the authority to issue prudential regulations pertaining to capital adequacy, liquidity, data to be supplied for supervisory purposes ,regulation of the use of internal controls to control frauds also became more emphasized(BOU,1995).

In 1994, BOU took over and closed down insolvent Teffe Bank, reimbursing the depositors. The Nile and Sembule banks were taken over in April 1995, with the BOU suspending their managements and boards of directors and appointing new chief executives. Restructuring programs for Nile and Sembule were implemented entailing the revision of loan policies and internal controls, up grading accounting systems and documentation and measures to recover loans. From then up to now internal controls became a basis for survival and ongoing strategy for most financial institutions in Uganda (BOU, 1995).

1.1.2 Theoretical Background.

Various studies and theories have suggested the importance of controls in financial institutions. They provide accurate complete and comparable information and prepare periodic follow up reports with high speed about all transactions and the different banking businesses undertaken by banks. Despite the insights and arguments from these authors management by objective has become a somewhat bureaucratic exercise administered by human resources department based on local goal setting. The research was guided by the Balanced Score Card Theory by Robert S.Kaplan and David P.Norton (1992).

The Balance Score Card is a theory which integrates financial and non financial strategic measures and contains outcome measures and the performance drivers of outcomes, linked together in cause and effect relationship making the performance measurement system a feed forward control system (de Haas and Kleingeld, 1999). It was launched in 1992 as a first set of principles for balanced strategic objective and measures. The ‘’parents’’ of balanced score card are Dr. Robert S.Kaplan, Baker Foundation Professor at Harvard Business School and Dr. David P. Norton, the founder of the consulting team that contributed over the past two decades to the development of Balanced Scorecard into today’s integrated and aligned management system. That company is now called Palladium Group and is based in Massachusetts, near the Harvard Business School.

The score card translates the vision and strategy of business unit into objectives and measures in four different perspectives; financial perspective, Customer perspective, business process perspective and learning and growth perspective.

The financial perspective entails the use of traditional financial measures that try to examine whether or not the company's strategy is contributing to the bottom-line improvement of company.

The customer perspective aims to define the value proposition of the company. The company will try to define the value it wants to apply to the end users that will potentially satisfy the customer's needs.

The internal process perspective is concerned with the internal processes within a company that create and deliver the goods and services to the company. It equally focuses on the activities and key processes required in order for the company to excel at providing the value expected by the customers (Bossidy& Charan, 2002).

The innovation and learning perspective is the foundation of any strategy and focuses on the human and intangible assets of the company. It focuses mainly on the internal skills and capabilities that are required in order to support the value creating internal processes. The balance score card is relevant to this study in the following ways; it helps in translating the vision of an organization by relying on measurement, the score card forces managers to come to agreement on the metric they will use to operationalize their lofty visions for instance a bank had articulated its strategy as providing ''superior service to targeted customers''. But the process of choosing operational measures for the four areas of the score card made executives realizes that they first needed to reconcile divergent views of who the targeted customers were and what constituted superior service(Cartin,2000).

Communicating and linking, when a scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone. As the high level score card cascades down to individual business units, overarching strategic objectives and measures are translated into objectives and measures appropriate to each particular group. Typing these targets to individual performance and compensation system yields personal score cards (Cox&Chinnappa, 1995).

Business planning, most Banks have separate procedures for strategic planning and budgeting. The discipline of creating a balanced score card forces banks to integrate the two functions, thereby ensuring that financial budgets do indeed support strategic goals. After agreeing on the performance measures for the four scorecard perspectives banks identify the most influential ‘’drivers’’ of the desired outcomes and then set milestones for gauging the progress they make with these drivers (Cartin, 2000).

Learning by supplying a mechanism for strategic feed-back and review, the balanced score card helps an organization foster a kind of learning often missing in most banks and companies: The ability to reflect on inferences and adjust theories about cause-and- effect relationships. Feed back about products and services. New learning about key internal processes. Technological discoveries. All this information can be fed into the scorecard, enabling strategic refinements to be made continually. Thus, at any point in the implementation, managers can know whether the strategy is working and if not, why (Cox& Chinnappa, 1995).

1.1.3 Conceptual Background.

Organizations today are formed with the purpose of using resources to produce outputs. The formulation of policies, structures, processes, procedures and systems are all a function of internal control arrangements on how to manage the resources. Financial institutions too have an obligation of facilitating internal controls in order to achieve set objectives.

People at every level of a financial institution are affected by internal controls, effective internal control helps a financial institution achieve its operations, financial reporting, and compliance objectives. Internal controls can provide only reasonable assurance not absolute assurance regarding the achievement of a financial institution's objectives.

Internal control consists of five interrelated components to include; control environment, Risk assessment, Control activities, Information and Communication and Monitoring (Diamond, 2002). In this research, the scope will only be limited to first three.

Risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives (Papastathis, 2003). This in turn forms a basis for determining those risks should be managed to maximize the banks performance. It is important to identify risk because in order to avoid jeopardizing the achievements of objectives. Each department's objectives, risks should be identified.

Control activities are actions, supported by policies and procedures that, when carried out properly and in a timely manner, manage or reduce risks. Control activities can be either preventive or detective. Preventive controls attempt to deter or prevent undesirable events from occurring. On the other hand detective controls attempt to detect undesirable acts which affect performance of banks. Control activities include approvals, authorizations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties and controls over information systems (Papastathis, 2003).

Control environment is the control consciousness of an organization; it is the atmosphere in which people conduct their activities and carry out their control responsibilities. An effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way in order to achieve the institutions' objectives and performance (savcuk, 2007). Control environment components include bank's structure, human resource policies and procedures, responsibilities of each staff, competence levels and quality of audit committee. Effective human resource policies and procedures enhance the Bank's control.

1.1.4 Contextual Background.

Post Bank Uganda has been in existence since 1926.It started out as a department in the post Office. In February 1998 Post Bank Uganda Limited was incorporated in accordance with the Communications Act of 1997 to take over the operations of the former Post Office Savings department. It was incorporated under the companies Act in February 1998 as a limited liability company. The bank's operations are supervised by Bank of Uganda under the financial institutions Act (2004). It is classified as a Tier II institution by BOU, the national banking regulator.

It is 100% owned by government of Uganda and has over 31 fixed branches and seventeen mobile banking units. Among the fixed branches are Kanungu and ntungamo branches the case studies for this research. They are located in western Uganda approximately 450 and 300km respectively from Kampala the capital city.

The bank has several control procedures laid down in different manuals such human resource, credit, operations, audit and administration. All these spell out what should be done and also spells out consequences of failure to abide by these policies. They include daily verification of vouchers, modification of all transactions above certain limits, authorization of transactions, calling over vouchers to establish that no mistakes were made in posting. However these manuals are only kept in shelves and only referred to when a mistake happens. It also takes too long for them to be up dated to suit the current situation. By end of 2011 the deposits stood at 477,742,463m against the targeted 550,000,000m,the branch posted a net loss of 227,250,223 m after appropriation of all costs and income generated was 42,362285m compared to the targeted 50,363,251m (Branch P&L,Dec,2011). Since its inception the branch has had only one internal audit carried out and obtained a rating of 5 out of the targeted 8. The reason for this was due issues of compliance , authorizations, know your customer issues (KYC),activations without proper procedures, standing orders without right signatories, failure to process client's loan requests on time, letters of undertaking not confirmed this may hinder recovery of loans in case of default.(Audit report, 2011).

Monitoring of the controls is vested in the branch management which also has other targets to meet on top of growing business. The distance and nature of the road net work has hindered the area business manager from making routine monthly visits to follow up on issues of controls and adherence to same. It is against this background that research was carried out to ascertain the effect of internal control procedures on performance of Post Bank.

1.2 Problem statement

Internal controls provide reasonable but absolute assurance for safe guarding of assets, adherence to procedures and management function of an organization (Cahill, 2006). Employees are equally responsible for the equality of their internal controls and accountability. Control systems should be developed and implemented to provide management with appropriate balance between risk of certain business practice and level of control required to ensure business objectives are made (Institute of Certified Internal Auditors Publication June 2010).

Post Bank has several internal control procedures laid down in different manuals such as human resource, credit, operations, audit and administration. All these spell out what should be done and also spells out consequences of failure to abide by these policies. However these manuals are only kept in shelves and only referred to when a mistake happens (compliance Report, 2012). It also takes too long for them to be up dated to suit the current situation.

Despite the existing internal controls and regulatory measures in PBU, the branches have continued to exhibit inadequate profitability, liquidity and non adherence to internal controls. This is explained by audit and compliance rating of 5 and 6 respectively out of the targeted 10 (Audit Report, 2011).This negatively affected the profitability index of the branches by failing to register profit after head office appropriations such as salaries and stationery costs thus exposing the branches to both operational and credit risks. If this is not reversed Kanungu and Ntungamo branches may take too long to break even than anticipated. Since no prior research on this issue has been conducted, this research therefore seeks to establish whether there is a relationship between internal controls and performance of Post Bank taking Kanungu and Ntungamo branches as a case study.

1.3. General objective

To establish the relationship between internal controls and performance of Post Bank using a case study of Kanungu and Ntungamo branches.

1.4. Specific objectives.

i. To assess the relationship between control environment and performance at Post Bank Kanungu and Ntungamo.

ii To examine the relationship between control activities and performance at Post Bank Kanungu and Ntungamo

iii. To ascertain the relationship between risk management and performance at Post Bank Kanungu and Ntungamo.

1.5 Research questions.

i. What is the relationship between control environment and performance at Post Bank Kanungu and Ntungamo?

ii. What is the relationship between control activities and performance at post Bank Kanungu and Ntungamo?

iii. What is the relationship between risk management and performance at Post Bank Kanungu and Ntungamo?

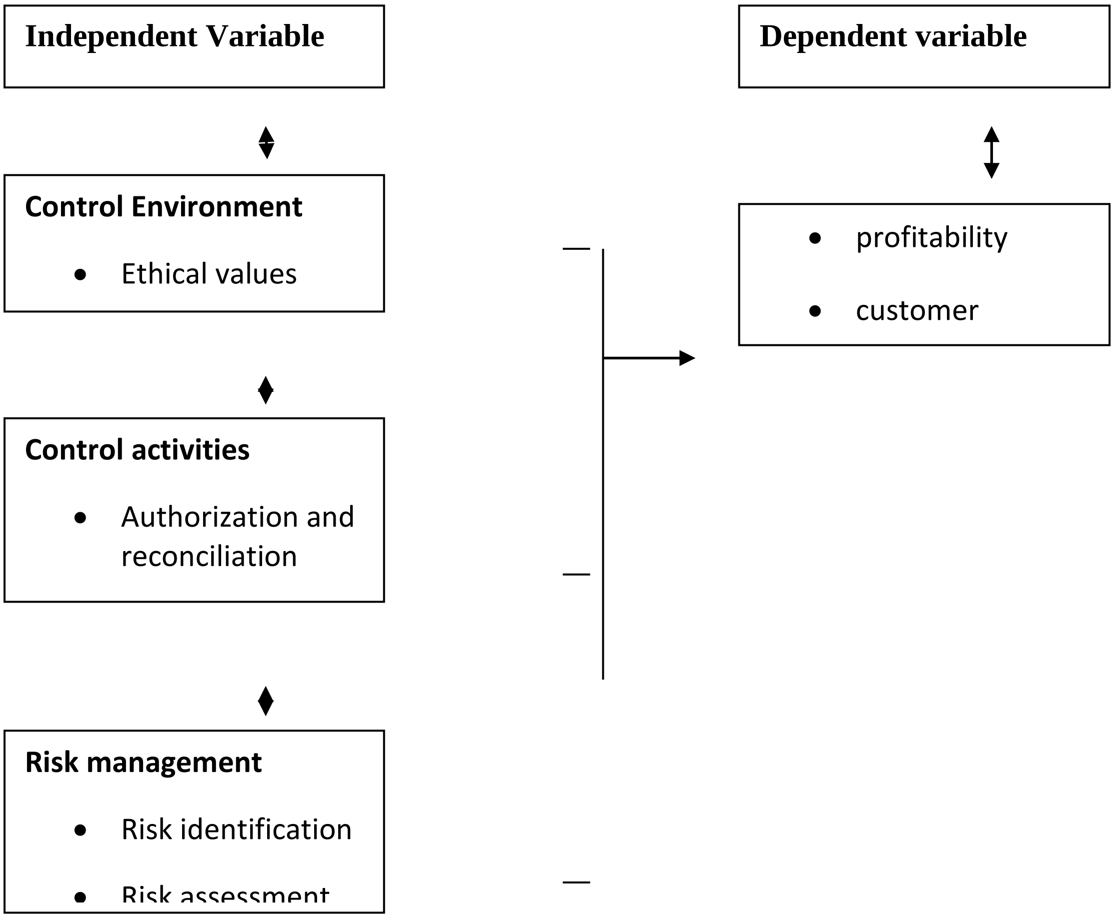
1.6 Hypothesis of the study

i. There is a significant relationship between control environment and performance of Post Bank.

ii. There is a significant relationship between controls activities and performance of Post Bank.

iii**.** There is a significant relationship between risk management and performance of Post Bank.

1.7. Conceptual Framework showing the Relationship between variables.



Source: ***Adopted from Matama, (2006) and D Aquila, (1998) and modified by the researcher.***

Figure: 1.1 Conceptual frame work showing relationship between internal controls and performance of Post Bank.

The figure above illustrates the relationship between internal controls and its contribution to performance of Post Bank. Internal control influences the dependent variable either in a positive or negative way and therefore explains its variance (Sekaran, 2000). In this study, it is conceptualized that the independent variable has an impact on performance of Post Bank. The internal controls that include control environment, control activities and risk assessment helps the staff of Post Bank to get opportunity to understand the objectives. These objectives form part of the independent variables and include; profitability, effective reporting and liquidity levels. From this analysis it is clear that research was based on a many to many approach. The conceptual frame work according to Reichel &Ramey (1987) has potential usefulness as a tool to scaffold research and assist a researcher to make meaning of the subsequent finding. Such a frame work was seen as a starting point for reflection about the research and its context.

1.8 Scope of the study

1.8.1 Geographical scope

The study was carried out in Ntungamo and Kanungu branches located in western Uganda approximately 300 and 450km from Kampala respectively. Post Bank Kanungu branch is situated along Independence Street KBS-plaza building, Kanungu Town council and Ntungamo branch is located on plot77, old Kabale - Mbarara Road Ntungamo Town council.

1.8.2 Content scope

The study focused on the internal controls and their affect on performance of Post Bank. Internal controls were the independent variable and performance of Post Bank was the dependent variable. Internal controls dimensions included Control environment, Control activities and Risk management and performance entailed profitability, customer satisfaction and Liquidity levels.

1.8.3 Time scope

The study covered a period of 2 years from September 2010 to September 2012.

1.9 Significance of the study.

The study finding may form a basis for financial institutions to manage their internal controls in order to improve on profitability, quality of assets, liquidity and management in general.

The findings may assist other researchers in enhancing their capacity in knowledge about internal controls and their effect on performance of financial institutions.

The finding may help the regulatory authorities such as Bank of Uganda and policy decision makers to re direct their attention on matters that affect financial institutions most.

1.10 Justification of the study.

Various arguments have been advanced on whether the demise of commercial banks and other organization was directly linked to weakness of internal controls. Many scandals both locally and internationally have persistently occurred for example insider lending in the defect ant Greenland Bank, Bank of credit and commerce international (BCCI) scandal, Enron, and the recent Barclays interest rate manipulation scandal. The need to investigate on cause of these scandals and the fact that it was the first to be conducted in Post Bank, justified the need to carry out the study. This was the first research on internal control and performance of Post Bank with Kanungu and Ntungamo as case studies. It was a new area of study that exposed the current and prevailing weaknesses in the banking sector.

1.11 Operational Definitions.

Internal control was defined as a process effected by an organization's structure, works and authority flows, people and management information systems designed to help the organization accomplish specific goals and objectives (Khan, 2006).

Internal controls are all the methods for implementing environmental controls, risk assessment, monitoring and information communication (Zabihollah, 2002).

An internal control system is the process that an administrator uses to provide reasonable assurance that the unit's goals and objectives will be achieved (Szymanski, 2005).

Performance is a measure of the results achieved. Performance efficiency is the ratio between effort extended and results achieved. The difference between current performance and the theoretical performance limit is the performance improvement zone (Malcolm, 2005).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents views from different authors in accordance to the study variables. The researcher has written literature from differing scholars basing on the study objectives as follows;

2.1 Theoretical Review

Various studies and theories have suggested the importance of controls in financial institutions. They provide accurate complete and comparable information and prepare periodic follow up reports with high speed about all transactions and the different banking businesses undertaken by banks.

For example Peter Drucker introduced Management By Objective theory. He argued that all employees should have personal performance objectives that are aligned strongly to the company strategy. Each manager from the big boss down to the production foreman or the chief clerk, needs clearly spelled out objectives. Managers must understand that business results depend on a balance of efforts and results in a number of areas. He must know and understand the ultimate business goal, what is expected of him and why, what he will be measured against and how.

Japanese Management Movement Theory of 1975. During the 1970s and 1980s, innovations in quality and just-in-time production by Japanese companies challenged the western leadership in many important industries. Several authors argued that western companies' narrow focus on short term financial performance contributed to their complacency and slow response to the Japanese threats.

Just in time is a Japanese manufacturing management method developed in 1970s. It was first adopted by Toyota manufacturing plants by Taiico Ohno. The main concern at that time was to meet consumer demands. After the introduction of JIT by Toyota, many companies followed up and around mid 1970s' it gained extended support and widely used by many companies. One motivated reason for developing JIT and some other better production techniques was that World War II; Japanese people had a very strong incentive to develop a good manufacturing technique to help them rebuild the economy. They also had strong working ethic which was concentrated on work rather than leisure to seek continuous improvement, life commitment to work, group conscious rather than individualism and achieved common goal. This kind of motivation had driven Japanese economy to success.

Total quality management (TQM), 1975-1990 has evolved from the quality assurance methods that were first developed around the time of the First World War. The war effort led to large scale manufacturing efforts that often produced poor quality. To help correct this quality inspectors were introduced on the production line to ensure that the level of failures due to quality is minimized. It is an approach that seeks to improve quality and performance which will meet or exceed customer expectations. This can be achieved by integrating all quality related functions and processes throughout the company. It looks at the overall quality measures used by a company including managing quality design and development, quality control and maintenance, quality improvement and quality assurance. TQM takes into account all quality measures taken at all levels and involving all company employees.

Despite the insights and arguments from these authors of TQM and JIT, management by objective has become a somewhat bureaucratic exercise administered by human resources department based on local goal setting.

In the beginning of 1990, there was growing criticism that traditional management accounting was focusing too narrowly on historical-oriented financial measures. Kaplan and Norton (1992) presented their balanced score card model as a solution to the measurement problem.

Several articles and books have been written on the balanced score card methodology and there are a variety of soft ware products to assist and expedite implementation of this performance measurement process. Historically, performance improvement systems have focused on measurement s and indicators alone. What is unique about the Balanced score card approach, in contrast to other methods, is that it links strategy with performance and goes beyond the traditional financial metrics in determining whether or not an organization has been successful

Although performance measurement systems can play a key role in communicating, evaluating, and rewarding the achievement of strategic objectives, many managers feel that their existing measurement systems do not adequately full fill these functions. A 1996 survey by the institute of Management Accounting (IMA),for example, found that only 15 percent of the respondents' measurement systems supported top management's business objectives very well, while 43 percent were less than adequate or poor (IMA,1996). One of the primary criticisms of current measurement systems is that they are generally limited to financial indicators, thereby focusing the organization on past performance and encouraging a short-term view of strategic objectives.

Kaplan and Norton (1992, 1996) developed the balanced score card concept to address the perceived shortcomings in financially-oriented performance measurement systems. The balanced scorecard approach supplements traditional financial measures with non-financial measures focused on at least three other perspectives-customers, internal business processes and learning and growth. Kaplan and Norton contend that the balanced scorecard provides a number of mechanisms for linking long term strategic objectives with short term actions. First, development of the balanced score card forces managers to develop a consensus around the firm's vision and strategy. Second the balanced score card allows managers to communicate the firms strategy throughout the organization, helping to ensure that employees understand the long term strategy.

Although Kaplan and Norton (1996) argue that the proper role of the balanced scorecard in determining compensation is not yet clear, a recent survey of score card implementation found that 70percent of the respondents already use the balanced score card or some variant for compensation purposes, and 17 percent are actively considering its use for this purpose (Towers Perrin,1996). Similarly, research by Ittner et al. (1997) indicates that 36 percent of U.S. firms now use financial and non- financial measures in their chief executive officers' annual bonus contracts, with the weights placed on these measures a function of the firms' strategic objectives.

Post Bank has also changed from the old format of performance appraisal to using a balanced score card.

2.2 Control environment and performance of Post Bank.

An effective control environment is where competent people understand their responsibilities the limits to their authority and are knowledgeable, mindful and committed to doing what is right and doing it the right way. They are committed to following bank's policies and procedures and its ethical and behavior standards. The control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control (Sampson, 1999). Control environment is one of the key components of an institution's internal control; it sets the tone of an institution, influences the control consciousness of all people within the organization and is foundation for all other components of internal control system (Ramos, 2004). This was in line with Kanungu and Ntungamo branches as the previous audit reports emphasized the need to ensure internal controls are followed and no repeated audit findings reported.

2.2.1 Ethical values and performance of Post Bank.

According *Tone at the Top* Magazine Nov/December edition, (2006) which was published exclusively for senior management, boards of directors and Audit committees, the institute of internal Auditors underline that a strong tone at the top plays a pivotal role because the control environment represent the bank's first line of defense to mitigate the risk of financial reporting errors. Researches proved that commitment to strong internal control by the top management is often translated into a better performance.

The board of directors and senior management are responsible for promoting high ethical integrity standards and for establishing a culture within the bank that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel at the banking institution need to understand their role in the internal control process and be fully engaged in the process (Audit report, 2011).

Lloyd, (2005) asserts that the way financial institutions use money is not irrelevant from a moral and ethical perspective. Crime, pollution, corruption, violation of human rights, threats to human life, totalitarian regimes, and all sorts of wrong doing need and use money every year. Financial institutions play a key role in the supply and movement of money. In this essay we intend to draw attention to key roles the banking industry plays in the supply chain of money. Money which plays a key role in the supply chain and that is not morally or ethically avoidable any more to investigate and to actively question how banks are using that supply chain to channel money, with financial practices that can be fueling wrong doing across the world.

He further clarifies that whenever investors' money is channeled to evil investment by financial institutions, it is the bank that is guilty of wrong doing and not the individual investor, unless the individual investor were aware of wrong doing

Well as Banking was a business concerned with protecting and growing people's money, one of its principal purposes was to generate wealth, in the form of financial returns for its shareholders. As in any industry, it was understandable and acceptable that banks try their best to maximize their investments and therefore, it's logical that banks charge interest rates on the loans and financing activities they offer to their clients. However, banks that charge excessive interest rates, abusive commissions or ultra-profitable credit charges that go beyond reasonable standards for taking an extra benefit from a specific situation in detriment to their customers are guilty of usury (Heffernan, 2005). She further contends that financial institutions which consistently engage in usury are accordingly a subject of our concern. While we do not necessarily endorse bureaucratic regulations which may be excessively burdensome and counterproductive, we do expect banks to act morally with respect to lending practices within their organizations which are potentially usurious. Our concern is that banks are frequently charging excessive rates and imposing unfair advantages for themselves upon customers. We expect banks to take care to implement policies that prevent wrong doing in the form of usury and similar sorts of abusive practices.

An essential element of effective system of internal control is a strong control culture. It is the responsibility of the board of directors and senior management to emphasize the importance of internal control through their actions and words. This includes the ethical values that management displays in their business dealings, both inside and outside the institution. The words attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the banks control culture (Audit report, 2011).

In a varying degree, internal control is the responsibility of everyone in the bank. Almost all employees provide information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management and problems in the operations, instances of non compliance with the code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It’s essential that all personnel within the bank understand the importance of internal controls and are actively engaged in the process (Theofanis, 2006).

In reinforcing ethical values, banking institutions should avoid policies and practices that may inadvertently provide incentives or temptations for inappropriate activities. Examples of such policies and practices may include undue emphasis on performance targets or other operational results, particularly shorter ones that ignore long term risks; compensation schemes that overly depend on short term performance, effective segregation of duties or other controls that could allow the misuse of resources or concealment of poor performance, and insignificant or overly onerous penalties for improper behavior (BOU, 2006). The control environment should reflect several factors. First, the bank should display strong ethical values. This is difficult because various parties have different concerns, incentives and temptations. Next, all parties should be competent in the performance of their duties. Another important factor that significantly affects the control environment is management's philosophy and operating style (Theofanis, 2006).From the staff files that were reviewed during the study, it was clear that each staff member had a signed copy of the code of conduct. This was a clear manifestation that ethical values play a leading role in determining the discipline at the two branches.

2.2.2 Human resource policy and performance of Post Bank.

Human resource covers a number of areas for both managerial and non managerial employees such as compensation, hiring and selection, staffing, training, work organization and employee involvement. Since employee satisfaction is one of the links in the service-profit chain, we may expect human resource management to be a key driver of employee performance and hence organizational performance. A recast in terms of literature on banking efficiency, these findings imply that some of the inefficiencies in banking may be attributed to the inefficiency management of human resource (Lloyd, 2005).

In addition to the above Rae&Subramaniam (2006), the core of any institution is its people and they are the engine that drives the institution. They further argue that individual attributes and environment in which they operate determine the success of the institution and that the control environment as established by the institution's administration sets tone of an institution and influences the control consciousness of its people. Control environment factors are listed by Subramanian et al.., (2006); include integrity and ethical values, the competence of the Banks staff, leadership philosophy and operating style. The way management assigns authority and responsibility and organizes its people. Furthermore, human-resource policy, including proper assignment of authority and responsibility, adequate training and promotion and compensation guidelines, greatly influences the control environment. An institution structure that is inappropriate for the bank's tasks that causes bottlenecks in information flow, and results in unclear assignment of responsibility prevent the accomplishment of bank's objectives (Griffiths, 2006).

In support of Griffiths, Krishnan, (2005) asserts that effective human resource policies and procedures enhance an institution's control environment. These policies and procedures should address hiring, orientation, training evaluations, counseling, promotions, compensation, and disciplinary actions. In the event that employee does not comply with the institution's policies and procedures or behavioral standards, Administrative procedures, Business and finance bulletins, Employee Hand book, Purchasing manual, the bank must take appropriate disciplinary action to maintain an effective control environment. The control environment is greatly influenced by the extent to which individuals recognize that they will be held accountable.

Dezoort and Salterio,(2001) give an account on how management is responsible for creating a positive control environment, and how employees are responsible for helping to maintain this environment. Human resource management practices can be viewed at multiple levels. The architecture of a human resource management system provides a high level frame work, while policies bring this frame work closer to an operational level. System architecture and operational decisions should properly be aligned if human resource management is to deliver value added. Furthermore, large complex organizations such as banks, different sub systems of human resources management govern different groups of employees and these sub systems should also be properly aligned (Griffiths, 2006). Governance is the influence on an organization exercised by the executive body or the chief executive which/who governs it. The executive body may be a board of directors, board of trustees, council, legislature or similar entity. The chief executive may be the president, chancellor, commissioner, chief judge or an individual elected or appointed as the highest ranking person in the institution. Their governance responsibilities are usually founded in a constitution, charter, laws, bylaws, regulations and other similar documents. The leadership, actions and tone established and practiced by the governing body/executive can have a profound impact on how the employees of the institution perform their responsibilities, which in turn affects the achievement of the bank's mission. Among critical areas influenced by the governing body are: Approving and monitoring the bank's mission and strategic plan, Establishing, practicing and monitoring the bank's values and ethical code, Overseeing the decisions and actions of senior managers, Establishing high level policy and institution structure, Ensuring and providing accountability to stake holders, Establishing the overall management style, philosophy and Directing management oversight of key business processes (Boakye,1997).

However, not only the top management level but building a strong consciousness of control mechanisms throughout the banks culture is one of the ways to ensure effective control environment in the enterprise (Institute of Internal Auditors, 2005).

While having a strong internal control culture does not guarantee that an institution will reach its goals, the lack of such a culture provides greater opportunities for errors to go undetected or for improprieties to occur. From the study it was found out the Human resource policy was revised and several factors were changed to suite the demands of the staff. Hard to reach allowance was approved for staff members at Kanungu branch.

2.3 Control activities and performance of Post Bank.

The Committee of Sponsoring Organizations internal controls interpreted framework (1992) defines control activities as tools both manual and automated designed and implemented to address the risk that the institution identify through risk assessment process. They involve establishment of policies, the performance of procedures in accordance with the set policies and the verification that the policies are being complied with. Control activities involve all levels of personnel in the institution including both senior and junior management. Control activities are policies and procedures that help ensure management directive are carried out. They help ensure that necessary actions are taken to address risks to achievement of the banks objectives. Control activities occur throughout the bank at all levels and in all functions. Major aspects of control activities in banks are higher concentration of decision making authority, wider breadth of control and more direct ways of communication (Sampson, 1999).

However, Gansberghe, (2005) defines control activities as actions, supported by policies and procedures that, when carried out properly and in a timely manner, mange or reduce risk. He further asserts that primarily managers are responsible for identifying the financial and compliance risks for their operations, they also have line responsibility for designing, implementing and monitoring their internal control system.

In line with the above, Jenkinson (2008),control policies and procedures must be established and executed to help ensure that actions necessary to achieve the institution's objectives are effectively carried out. It is further argued that control activities are policies and procedures that help ensure that management directives are carried out and also controlled activities occur as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Sampson, 1999). Similarly reviews should be made of actual performance versus budget. The COSO integrated frame work (1992) further groups control activities into two main categories; preventive and detective control activities. Preventive control attempts to deter or prevent undesirable events from occurring.

They are proactive controls that help to prevent a loss for example Separation of duties, proper authorization, adequate documentation and physical control over assets. Detective controls attempt to detect undesirable acts, they provide evidence that loss has occurred but not to prevent a loss from occurring and they include reviews, variance analysis, reconciliation, physical inventories and audits.

Khan, (2006) argues that control activities can further be split into two to include Activity controls and physical control. Activity controls, where departmental levels and management receive and reviews standards performance and exception reports on a daily, weekly or monthly basis. Functional reviews occur more frequently than top level reviews and are usually more detailed. For instance a manager of a commercial lending department may review weekly reports of payment received, and interest income earned on the portfolio while the senior credit officer may review similar reports on a monthly basis and in a more summarized form that includes all lending areas. Like top level reviews, the questions generated as a result of reviewing the reports and the response to those questions represents the control activity. On the other hand physical controls generally focus on restricting access to physical assets including collateral securities, and other financial assets. Control activities include;

2.3.1 Authorization, Reconciliation and performance of financial institutions.

Authorization is the power management grants employees to carry out certain duties based on approvals received from superiors. Authorization is a control activity designed to ensure events or transactions are initiated and executed by those approved by management. Management should ensure that the conditions and terms are clearly stated and communicated and that significant events and transactions over certain limits ensure that an appropriate level of management is aware of the transaction or situation and helps establish accountability (khan, 2006)

Reconciliation is a comparison of different sets of data to one another, identifying investigating differences, and taking corrective action, when necessary, to resolve differences. Reconciling monthly financial reports from the accounting department to file copies of supporting documentation or departmental accounting records is an example of reconciling one set of data to another. This control activity helps to ensure the accuracy and completeness of transactions that have been charged to a department's accounts. To ensure proper segregation of duties, the person who approves transactions or handles cash receipts should not be the person who performs the reconciliation. A critical element of the reconciliation process is to resolve differences. It does no good to note differences and do nothing about it. Differences should be identified, investigated and explained corrective action must be taken. If expenditure is incorrectly charged to a department's accounts, then the approver should request a correcting journal entry; the reconciler should ascertain that the correcting journal entry was posted. Reconciliations should be documented and approved by management (sebbowa, 2009).It was found out that the operations supervisor often documented reconciliation reports and authorization were sought from managers of the two branches. Reconciliations were done twice in month and reports sent to the head of operations for review on 5th of every month.

2.3.2 Asset Security reviews and performance of Post Bank.

Liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems and confidential information must be safeguarded against unauthorized acquisition, use or disposition. Typically, access controls are the best way to safeguard these assets. Example of access controls are as follows: locked door, key pad systems, card key system, and badge system, locked filing cabinet, guard, terminal lock, and computer password, menu protection automatic call back for remote access, smart card and data encryption. Departments with capital assets or significant inventories should establish perpetual inventory control over these items by recording purchases and issuances. Periodically, the items should be physically counted by a person who is independent of the purchase, authorization and assets custody functions, and the counts should be compared to balances per the perpetual records. Missing items should be investigated, resolved, and analyzed for possible control deficiencies; perpetual records should be adjusted to physical counts if missing items are not located (Sebbowa, 2009).

Control activities-reviews-reviewing reports, reports, statements, reconciliations, and other information by management is an important control activity; management should review such information for consistency and reasonableness. Reviews of performance provide a basis for detecting problems. Management should compare information about current performance to budgets, forecasts, prior periods or other bench marks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions which require follow-up. Management's review of reports, statements, reconciliations, and other information should be documented as well as the resolution of items noted for follow-up (DeAngelo, 2000). The Audit reports for 2012 revealed that customer security files for Kanungu branch were kept in boxes which were not under key and lock because the fire proof cabins were these files are supposed to be kept were full to capacity. In Ntungamo all security files were under key and lock. All assets that were viewed during the study were engraved for both branches an implication that due diligence is paid during the time these assets are purchased. This according to the management prevents assets from being stolen.

2.3.3 Segregation of Duties and performance of Post Bank.

Basle committee report 2003, in reviewing major banking losses caused by poor internal controls supervisors typically find that one of the major cause of such losses is the lack of adequate segregation of duties. Assigning conflicting duties to on individual gives that person access to assets of value and the ability to manipulate financial data for personal gains or to conceal losses with ever is best. Consequently certain duties with the institution should be split among various individuals in order to reduce the risk of manipulation of data or misappropriation of assets. By separating key tasks and responsibilities such as receiving, recording, depositing, securing and reconciling assets, management can reduce risk of error, waste or wrongful acts occurring or going undetected. Specifically the various activities related to a transaction, that is initiation, authorization, approved ordering, receipt payment and recording should be done by different employees or submits of the bank. However, in case where tasks cannot be effectively separated management can substitute increased supervision as an alternative control activity that can help prevent or reduce these risks.

According to Jensen and Mackling(1976),Fama et al(1983) given that top management have responsibilities in ensuring effective internal controls, management should build control activities into business processes and systems as the process and systems are being designed. The distribution of resources among the control activities should be based on the significance and likelihood of the risk it is preventing or reducing.

Segregation of duties helps to provide assurance that transactions are valid, accurately reported, in compliance with rules and regulations and in accordance with the organization’s goals and objectives. It is equally true that lack of segregation leads to administrative errors not to be detected timely since an independent review of transactions may not be occurring, in appropriate or unauthorized transactions are permitted to occur since one individual controls a major portion of the revenue, expenditure or payroll function. It may waste for the staff to research and resolve problem transactions that were not prevented or detected timely, loss of funds due to inappropriate transactions and loss of unit effectiveness due to expenditures not being made in accordance with unit established priorities (Freeland& Friedman, 2007).

The employee who is responsible for receipt of cash should not have access to record or authorize transactions in the accounts receivable ledger and customer accounts. In addition the person receiving the cash or preparing deposits should not be responsible for recording cash transactions or preparing the bank reconciliation. Equally important employees involved in the purchasing function should not have record keeping responsibilities in the disbursement system. Specifically these employees should not be able to modify the vendor master file, record vendor invoices, receive goods, reconcile or write off inventory, obtain custody of inventory either directly or by influencing the shipment of inventory (Post Bank Operations Mannual, 2010).

Not all elements of control activities can be categorized as either preventive or directive. Some elements exhibit both features. This is the case of security assets to a limited number of employees has both a preventive and detective purpose. The same is true with controls over information systems that address both general controls as well as application controls (Sampson, 1999).

2.4 Risk Management and Performance of Post Bank.

Risk management frame work is important for banks. The risk management strategy must be integrated with its overall corporate strategies. In conjunction with the underlying frameworks, basic risk management process that is generally accepted is the practice of identifying, analyzing, measuring and defining the desired risk level through risk control and risk transfer (Freeland&Friedman, 2007).

In agreement with the above, Boston consulting group (2001) ascertain that it is important for staff of banking institutions to understand the aspect of risk in the banking operations and the risk that are inherent and exposed in their business operations. Better understanding of risk management is also necessary especially in the financial intermediation activities where managing risk is one of the important activities. The study group further found that the sole determining success factor is not the technical development but the ability to understand risk strategically and also the ability to handle and control risk organizationally. Equally important, in order to realize a risk based management philosophy, the attitude and mindset of the employees need to be changed whereby they must be brought to understand that managing risk is crucial for success. From the interviews conducted during the study it was evident there was no a clear risk management policy followed by staff of these two branches. Two different departments of risk and compliance were under one department until when BOU advised that they should be separated. This was due to the importance of the two departments of which risk forms a basis for this study.

2.4.1 Risk Identification and performance of Post Bank.

There are few conceptual studies on risk identification of financial institutions; it is the first stage of risk management and very important step in risk management (Pausenberger and Nassuer, 2000). The first task of the risk management is to classify the corporate risk according to their different types. The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation. Then the departments and the employees must be assigned with responsibilities to identify specific risks. For instance, interest rate risks or foreign exchange risks are the main domain of the financial department. It is important to ensure that the risk management function is established throughout the whole corporation (Puasenberger and Nassuer, 2000).

Onyango, (2007) further contends that any bank first has to have in place an effective process to indentify risk and measure their potential impact. The process is sequential and starts with the development of strategic objectives. Management should first identify major objectives that if achieved will improve operational and financial performance and in the long run the overall company objectives. Management should then look at risk or put simply what can go wrong and then identify critical success factors that must go right to provide the greatest likelihood of success. Thereafter management decides what activities needed to deal with the risks identified before controls are designed to ensure the action are in fact carried out. Roles are also established and built into job description or performance contracts. The entire process is then monitored to ensure it delivers through changing circumstances.

Pausenberg & Nasauer (2000) also state that it is advisable for most corporations to implement early warning systems. An early warning system is a special information system enabling the management board to indentify risks in time by observing the development of defined indicators. Other instruments that could be used to indentify risks are checklists of possible disturbances or break downs, risk workshops, examination of corporate processes, internal inspections and interviews, loss balance to mention but a few. It is advisable to make use of the knowledge and skill of external experts, for instance, forecasts of banks about the development of interest rates or foreign exchange rates (Luck, 1998). There many other approaches for risk identification, for instance, scenario analysis or risk mapping. An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and high severity risk. Risk identification process includes risk ranking components where these ranking are usually based on impact, severity or dollar effects (Barton et al.2002). According to him the analysis helps to sort risk according to their importance and assist the management to develop risk management strategy to allocate resources efficiently.

In relation to commercial banks' practice of risk management, Al-Tamimi (2000) found that the commercial banks were mainly facing credit risk. The study also found that inspection by branch managers and financial statement analysis are the main methods used in risk identification. The main techniques used in risk management are establishing standards, credit score, credit worthiness analysis, risk rating and collateral. The recent study by Al-Tamimi and Al-Mazrooei (2007) was conducted on bank risk management of national and foreign banks. Their findings reveal that the three most important types of risks encountered by commercial banks are foreign exchange risk, followed by credit risk then operating risk. Not only that, there is no significant different on risk identification between national and foreign banks.

According to a documentary recorded from PBU, the department head is responsible for identifying and assessing the risk in his or her department. The entire management team then decides on how to handle the risk either by instituting stringent control measures or taking out an insurance policy for the said risk. Management then recommends the same to the board of trusties.

It is important that risk identification be comprehensive at the department level and at the activity or process level, for operations, financial reporting and compliance objectives. Risk assessment of COSO expects that after risks have been identified, a risk analysis is performed to prioritize those risks. A complete risk assessment encompasses the assessment of the likelihood of risk occurring as well as the estimation of quantitative and qualitative costs of the potential risk.

2.4.2 Risk Analysis, Assessment and performance of Post Bank.

An effective internal control system requires that the material risk that could adversely affect the achievement of the bank's goals are being recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization (that is credit risk, country and 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 risk (Palfi and Muresan, 2009).

There are many conceptual studies made on risk analysis and assessment by reference to measurement and mitigation of risk. According to Pausenberger and Nassauer (2000), the dimension of the potential loss has to be quantified. Here, the amount of the potential loss for the corporation and the corresponding probability of occurrence of this risk have to be determined. However, only a few risks can be exactly measured. In most cases, it is necessary to estimate the possible loss of a risky business or a risky position. Hence, the managers have to consider different possible developments. It is useful especially to identify the development with the highest probability in order to get an idea of the damage that will consistently affect the corporation. It is also useful to identify the development that will generate the biggest loss in order to assess the effects on the existence of the corporation. On the basis of this sort of information, the managers have to make measures to handle the risks.

In practice, it is useful to classify the different risks according to the amount of damage they possibly cause (Fuser et al, 1999). This classification enables the management to divide risks that are enabling to threat the existence of the corporation from those which can only cause slight damages. Frequently, there is an inverse relationship between the expected amount of loss and its corresponding likelihood, that is risks that will cause a high damage to corporation like earth quakes or fire, occur seldom, while risks that occur daily, like interest rate risks or foreign exchange risks, often cause only relatively minor losses, although these risks can sometimes harm the corporations seriously.

As part of its assessment process, PBU identified bank frauds as one possible area of loss due to fraudulent activities given high volumes of transactions and to minimize the risk, PBU identified stringent control by investing in an online real time account monitoring system with its bankers.

In the year following insurance policy covers with the American Insurance Group Uganda limited, the Basle committee on baking (1998) report states that many banking institutions that have suffered major losses neglected to continually assess the risk assessment when significant changes occurred in the environment or business conditions. Many recent cases highlight the control systems that function well for traditional or simple products are unable to handle to handle more sophisticated or complex products. The above finding therefore emphasizes the need for risk assessment to be continuously done; the process of risk reassessment ensures that the institution s internal controls are consistent with the ever changing nature complexity and risk of the institutions on and off balance sheet items.

With reference to Ernest and Young special Audit Report on UCB 1994,many borrowers collateral securities were never ascertained to exist and where they exist, the banks legal rights were never registered with the relevant authorities for example with land registry, poor risk assessment inevitably leads to poor design or complete lack of providing of control activities that should ideally check the profitability of occurrence of the risk, minimize or completely eliminate the risk there by enhancing the achievement of the bank's objectives.

Setting priorities is one of the ways that enables the bank to focus on risks with reasonable likelihood of occurrence and higher impacts (Sampson, 1999) .Although smaller banks are more likely to have more informal, less structured risk assessment process, the basic concept of this internal control component should exist in every bank as recommended by BOU.

Cahill (2006) states that Banks are in the business of risk taking. Consequently it is imperative that, as part of an internal control system, these risks are being recognized and continually assessed. Form an internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the banking organization's performance, information, and compliance objectives. This process should cover all risks faced by the bank and operate at all levels within the bank. It differs from the risk management process which typically focuses more on the review of business strategies developed to maximize the risk/reward tradeoff within the different areas of the bank. Effective risk assessment identifies and considers internal factors(such as the complexity of the organization's structure, the nature of the bank's activities, the quality of personnel, organizational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, change in the industry and technological advances) that could adversely affect achievement of the bank'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 banking organization. This can be accomplished through various methods. Effective risk assessment addresses both measurable and non measurable aspects of risk and weighs costs of controls against the benefits they provide.

The risk assessment process also includes evaluating the risks to determine which are controllable by the bank and which are not. For those risks that are controllable, the bank must assess whether to accept those risks or the extent to which it wishes to mitigate the risks through control procedures. For those risks that cannot be controlled, the bank must decide whether to accept these risks or to withdraw from or reduce the level of business activity concerned (Sawyer, 2003).

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 bank needs to evaluate new financial instruments and market transactions and consider the risks associated with these activities. Often these risks can be best understood when considering how various scenarios (economic and otherwise) affect the cash flows and earnings of financial instruments and transactions. Thoughtful consideration of the full range of possible problems, from customer misunderstanding to operational failure, will point to important control considerations (Uganda institute of Bankers, 2006). At the two branches knowledge on how follow up several risk exposures was minimum.

2.4.3 Risk Monitoring and performance of financial institutions.

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place (Al-

Tamimi and Al-Mazrooei, 2007). Risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring also helps bank management to discover mistake at an early stage. Monitoring is the last step in corporate risk management process (Pausenberger and Nassauer, 2005). According to them, control has to be established at different levels. The control by management board will not be enough to ensure the effective functioning of the risk monitoring system, because the management board will install an independent unit to complete the task of internal supervision. This task is the responsibility of the internal Audit. Also, the supervisory board is supported by the auditor. If the auditor discovers a defect, he will have to inform the supervisory board and the management board. The shareholders of the corporation can use their rights to demand information in order to judge the efficiency of the risk management systems. The director's report enables the shareholders to assess the status of the corporation knowledgeably and thoroughly.

Khan and Ahmad (2001) conducted a survey of risk management practices and found that on average the lowest percentage is on the measuring, mitigating and monitoring risks. Banks must have regular management information systems for measuring, monitoring, controlling and reporting different risk exposures. Steps that need to be taken for risk measurement and monitoring purposes are establishing standards for categorization and review of risks, consistent evaluation and rating of exposures.

Luck (1998) argues that risks that banks take up must be monitored and managed efficiently. Banks should do stress testing to see the effects on the portfolio resulting from different potential future changes. The areas a bank should examine are the effects of downturn in the industry or economy and market risk events on default rates and liquidity conditions under which a bank's positions would be vulnerable and the possible responses to such situations. The banks should have contingency plans that can be implemented under different scenarios.

2.5 Summary

In the foregoing literature, a number of arguments by different scholars regarding the importance of internal control have been presented. In summary it was evident that internal controls should be documented, proactive, involve the entire bank's staff, value adding and cost effective to ensure good performance and thus positive impact on the achievement of the bank's objectives. The overall assessment gives a comprehensive opinion of effectiveness of the institution's internal control system across internal control components. The overall opinion was often expressed in qualitative form, taking into account the issues mentioned in the literature. To facilitate the comparability with other institutions and give a compressive assessment of effectiveness of a bank's internal control system as such a universal system for evaluation is needed. From the study it was evident that internal controls affected the performance of the two branches and this was line empirical evidence raised by various scholars in the literature.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents a detailed description of the research methodology employed to investigate the relationship between internal controls and performance of Post Bank using a case study of Kanungu and Ntungamo. It covers the research design, the population and sample size, sampling procedures, data collection and analysis methods. In addition, it also includes the corresponding data collection instruments, reliability and validity testing, data management and analysis, research procedure and the measurement of variables.

3.1 Research Design

The study adopted a correlation case study research design. The case study design was used to enable the researcher to conduct an intensive and descriptive analysis of a single entity; post bank- Kanungu branch, with the hope that the findings would be applicable to other banks in Uganda and possibly elsewhere in the world. The correlation design enabled the researcher to assess the degree of the relationship between the variables. This is in line with Amin (2005); Mugenda & Mugenda (2003); Sarantakos, (2005), who concur that these are the most commonly used research methods in social sciences to gather data from a scattered sample of a population at a particular time using a one-time investigation. Using these designs, the researcher was able to gather information about the people's attitudes, practices, opinions and concerns. Under the two designs two approaches were used namely qualitative and quantitative approaches during data collection and analysis thus the study gives more accurate results and an in depth understanding of the variables (Amin, 2005).

3.2 Study population.

A target population of 50 subjects was considered for the study and they were distributed as follows; 34 officers (15 staff from operations section, 15 staff from credit section and 4 staff from sales), 10 supervisors and 6 key informants (2 managers of post bank, 2 customers and 2 board members). It is from this population that a representative sample was selected.

3.3 Sample size and selection.

The sample size was 44 (30 officers, 8 supervisors and 6 key informants). These were determined using the table provided by Krejcie and Morgan as cited by Amin (2005).

Table 3.1 Showing the study population, sample size and sampling procedure

Category	Population	Sample	Sampling technique
Officers	34	30	Simple random
Supervisors	10	8	Simple random
Customers	2	2	Purposive
Board members	2	2	purposive
Managers	2	2	Purposive
Total	**50**	**44**	

Source: *Post bank personnel list (2013).*

3.4 Sampling techniques and procedure.

3.4.1 Probability Sampling. Probability sampling is where every unit of the population has a chance that is greater than zero of being selected in the sample and this probability can be accurately determined. Probability sampling includes simple random sampling, systematic sampling, stratified sampling and cluster sampling. For the purpose of this study simple random technique was used.

3.4.1.1 Simple Random sampling

Simple random sampling is a situation where all members of the population have equal chance of being selected (Sekaran, 2003). It includes a roulette wheel method; where all members of the population are systematically assigned numbers that are written at equal intervals on the circumference of a wheel. The study employed simple random sampling of the Lottery method to select officers and customers. The procedure was preferred because these are different stakeholders at the bank and handling different activities thus giving each member in that institution an equal and independent chance of selection would reduce bias considering the sample required.

3.4.2 Non probability Sampling.

This is mainly used when adequate sampling frames are not available. Examples include convenience sampling, purposive sampling Quota sampling and Snow ball sampling. The study employed purposive sampling where the researcher used his own judgment or experience in selecting elements in a sample. It was employed on the customers, board members and managers because of their numbers and their stake as per the study variables bearing in mind the time frame for the study. This is in line with Sekaran (2003) and Amin (2005).

3.5 Data collection methods. Data collection methods blend themselves to primary and secondary categories entwined in both Quantitative and qualitative methods. Primary data are those data collected for the first time and thus happen to be original in character while secondary data are those which have already been collected by someone else and have already been passed through the statistical process (Kothari, 1985 & Sekaran, 2003).

Data for this study was derived from both primary and secondary sources. To investigate the variables of the study exhaustively, the researcher used a combination of data collection methods by way of methodological triangulation. This was done to enable the various methods to complement one another, thereby making up for the weakness in each method. As a result, the researcher was able to capture a more comprehensive variety of information, to reveal more discrepancies in the data collected and to eliminate more biases than would have been possible had a single method been used. This is in line with (Mugenda and Mugenda, 2003). Primary data was obtained using two methods: the questionnaire survey method and interviews. Secondary data was obtained by means of documentary review.

3.5.1 Questionnaire Method.

This was the major means of collecting primary data. The questionnaire survey method was used on 38 respondents who were selected to participate in this study and whose particulars appear in table 3.1 above. This method was preferred because the study involved variables that required respondents' views, opinions and feelings and because of their convenience and the ability to attract a huge number of respondents. This is in line with (Amin, 2005). The cross ended structured questionnaire were pretested and standardized for use.

3.5.2 Interview method

The interview method was done with only six (6) respondents (Customers, Board members and Managers) in order to supplement the data obtained from the questionnaires. The interviews were conducted face to face by the research assistants so as to reduce bias. The interview method was preferred for these respondents because the researcher intended to capture in-depth, accurate and sensitive information which could not be obtained using the questionnaire method and the above respondents were considered as the key informants that would supply such information to the researcher (Webster, 1985).

3.5.3 Documentary review.

Documentary review was used to review the existing literature related to the study in order to either find gaps that would be filled by the study or evidence that would support or contradict the quantitative and qualitative findings. Such documents include; compliance and audit reports previously carried out at the branch. This method was preferred because it enriched the study with secondary data, gave the researcher a foundation to establish whether a similar study has ever been carried out elsewhere (Borthwick, 2009).

3.6 Data collection instruments

The quality of research to a large extent depends on the quality of data collection instruments, interview guides and questionnaires are probably the most commonly used research tools (Silverman, 2006).

3.6.1 Questionnaires

A questionnaire is a structured technique of collecting data. It is generally a series of written questions for which the respondents have to provide the answers (Bell, 1999). The study used a questionnaire as the major instrument for collecting primary data. Close ended Questionnaires were designed in five likert itemized rating scale of 1to 5 (5-strongly agree, 4-agree, 3-not sure, 2-disagree, 1-strongly disagree). It was preferred because of its convenience, its anonymous nature and as an efficient means of collecting both qualitative and quantitative data to make triangulation feasible (Sekaran, 2003; Amin, 2005).

3.6.2 Interview Guide.

An interview guide was used to carry out face to face interviews with key informants. This was done to supplement on the information gathered through the questionnaires. The interview guide allowed probing for questions in addition to pre-determined questions so as to elicit detailed and precise data. This helped in digging deep into the issues under investigation (Mugenda and Mugenda, 2003).

3.6.3 Documentary review Checklist.

A documentary review checklist was used to guide the study and review of key documents with an intention of gathering related information about the study variables. Appendix 3 has all relevant documents that provided the researcher with key information about the study.

3.7 Validity and reliability

3.7.1 Validity

The study ensured the validity of the questionnaire and the interview guide by seeking the judgment of two UMI consultants who supervised the study. The questionnaire items were first tested on language clarity, relevance and comprehensiveness in order to ensure the accuracy and meaningfulness of inferences in collecting accurate data. The researcher then continued to make adjustments. A coefficient of validity index was computed to ascertain the extent to which the content of the instrument corresponded to the concept it was designed to measure using the formulae below;

That is Content Validity Index (CVI) = $\frac{\text{No. of items rated valid by all judges}}{\text{Total no. of items in the instrument}} = \frac{60}{74} = 0.81$

According to Amin (2005) a content validity index of 0.7 and above qualifies the questionnaire a valid instrument to be adopted for use. For this study a content validity of 0.81 (81%) was established thus the questionnaire used was appropriate since it measured what it intended to measure.

3.7.2 Reliability

Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects (Bell, 1999). The study employed test retest method of testing reliability. The researcher used this method because it provides evidence that scores obtained on a test at one time (test) are the same or close to the same when the test is re-administered some other time (retest) thus proving its reliability. The instrument (questionnaire) was pre-tested on 4 selected respondents from equity bank because they were not to take part in the study to ensure consistency and comprehensiveness. After, an internal consistency method of the Cronbach's alpha was employed because the questionnaire was designed in a liker scale type and the data collected was interval data. The aim was to find out how well the items in the set are positively correlated to one another. This is elaborated on the table below;

Table 3.2 showing the results of reliability

Variable	No. of items	First test	Second test	After data collection
Control environment	10	0.761	0.864	0.793
Control activities	15	0.812	0.871	0.752

Risk management	15	0.752	0.822	0.761
Performance of post bank	15	0.752	0.822	0.761
All variables	55	0.867	0.768	0.822

Source: *Field data*

The results in table 3.2 indicated high coefficient for all the variables which meant that the instrument had good test retest reliability. According to Amin (2005), an alpha of 0.5 or higher is sufficient to show reliability. This is in agreement with Sekaran (2003) who stressed that the close the reliability is to 1, the higher the internal consistency of reliability. The method of test retest helped in capturing the two different meanings of reliability, true consistency and internal consistency given that all variables had their alpha exceeding 0.5. The method was chosen because it attempts to minimize random error and hence increase the reliability of data collected.

3.8 Procedure of Data Collection.

The procedure of data collection involved getting a letter from Uganda Management Institute that was presented to the manager Post bank Kanungu and Ntungamo where the study was carried out. Upon acceptance from management, two research assistants were recruited and trained to carry out data collection exercise. Questionnaires were distributed to various respondents and interviews carried out. A period of time was ascertained on when they shall be collected and then data analysis followed.

3.9 Data Analysis

Data analysis is the process of bringing order, structure and meaning to masses of collected data. The purpose of analyzing data is to obtain usable and useful information (Borthwick, 2009). From the field, quantitative data was; checked and sorted, to ensure completeness especially of questionnaires. It was coded and computed using Statistical Package for Social Sciences (SPSS). This generated descriptive statistics such as frequencies and percentages that were presented in form of figures and tables to facilitate a quick analysis of the data. On the other hand qualitative data was edited and studied to ensure consistency and accuracy right away in the field.

3.9.1 Quantitative Data Analysis

Quantitative data was analyzed using descriptive statistics technique of; the mean, mode and standard deviation. For appropriate analysis and summary, those rated strongly agree and agree were simply regarded as "agree" while those rated strongly disagree and disagree were regarded as "disagree". The correlations were arrived at using inferential statistics of Pearson product moment. The choice of this technique is based on the research design moreover in social science research, the interest is in understanding and controlling relationships between variables than determining their causes (Mugenda and Mugenda, 2003; Kothari, 2003; Amin, 2005). Regression analysis of linear regression was computed to determine the level of significance by looking at the strength of the relationship among the variables under study.

3.9.2 Qualitative Data Analysis

The process of Qualitative Data analysis involves mainly two things; writing and identification of themes (Silverman, 2006). Questionnaires were reviewed thoroughly, interviews transcribed, sorted and classified into themes and categories in order to support the hypotheses set. Qualitative data obtained during interviews and document analysis was integrated in quantitative analysis in form of paragraphs, personal communication as evidence based on verbatim quotations from respondents. The above technique was preferred because it gave an explanation to the quantitative data by adding quality to the information produced.

3.10 Measurement of Variables.

Interval scale was used to measure both the independent and the dependent variable. Five likert scale point was used whereby 5=strongly agree, 4= agree, 3= undecided, 2=disagree and 1=strongly disagree. The respondents ticket in the box along the question to indicate their level of agreement or disagreement using the scale. This was preferred because it eases coding and analysis of the results. Besides it's the most frequently used summated scale in the study of social attitudes that is user friendly which makes units equal (Kothari, 2003).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS.

4.0 Introduction

This chapter presents the analyses and interprets the results of the study that set out to establish the relationship between internal controls and performance of Post Bank using a case study of Kanungu and Ntungamo branches. The specific objectives were to; assess the relationship between control environment and performance of Post Bank Kanungu and Ntungamo, to examine the relationship between control activities and performance of Post Bank Kanungu and Ntungamo, to ascertain the relationship between risk management and performance at Post Bank Kanungu and Ntungamo. The chapter comprise of; introduction, background information on the bio-data of respondents, assessment of the study objectives by descriptive statistics, correlation, and regression of variables.

4.1 Response Rate

The response rate is defined as the ratio between number of returned usable questionnaires and the number of reachable sampled respondents. The study targeted a sample size of 44 respondents. However, out of 38 distributed questionnaires 37 were collected and only 35 were usable as two (2) collected questionnaires had gaps of; respondents choosing two (2) or more responses for the same statement and missing data. All the six interviews were conducted with the selected respondents. The above is illustrated on the table below;

Table 4.1 Showing response rate and instruments utility

Administered questionnaires	38
Collected Questionnaires	37
Usable questionnaires	35

Source: Study data

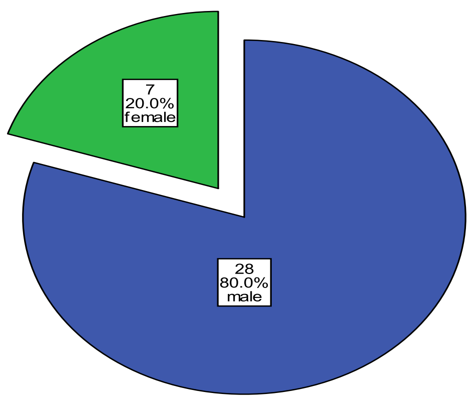
The questionnaire survey response rate was 92%. Six (6) participants were interviewed that is two supervisors, two board members and two managers. The response rate for interviews was 100%. The overall response rate was computed as follows; 100+92/2 93%. According to Mugenda & Mugenda (2003) a response rate of 50% is adequate when quantitative data is collected and for most surveys, 60% is good and 70% or even above is very good. Therefore the response rate for this study was very good and presents; adequate, valid, and reliable data on the study variables at the two branches thus the study may be generalized. This high response rate was attributed to; the questionnaire design, well trained research assistants plus the research topic that generated interest among the respondents.

4.2 Background characteristics of Respondents

This presentation showed the analysis of demographic characteristics of respondents summarized in tables and figures. The researcher collected information on the characteristics of respondents in order to verify whether data was collected from the right population. This section was organized according to; gender, level of education, position held in the institution, age bracket and period of Service.

4.2.1 Respondents by Gender.

The study was set out to find the Gender distribution of respondents with an intention of establishing whether the views of both males and females were representative in the study. The responses are presented on the figure below;



Source: *Field data*

Figure: 4.1 showing distributions of Respondents by Gender

From the figure above, majority 28 (80%) of the respondents were males while 7 (20%) of the respondents were females. This implies that there are more male staff than females as many female staff shun working upcountry as captured from the human resource records specifically staff lists (2013).

4.2.2 Respondents by the Education Level. Respondents were asked to indicate their level of education. This was because the researcher wanted to define whether the respondents involved in effecting internal control processes were qualified and in position to raise appropriate responses for the study variables that would guide the nature of investigation. The results were shown in the table below;

Table 4.2: Showing educational level of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate/Diploma	7	20.0	20.0	20.0
	Bachelors	26	74.3	74.3	94.3
	Post Graduate	2	5.7	5.7	100.0
	Total	**35**	**100.0**	**100.0**	

Source: *Primary Data*

As indicated on the above table, 7 (20%) were at Certificate/Diploma level, 26 (74.3%) were at Bachelors degree level, 2 (5.7%) respondents were at Post graduate diploma level. Therefore, since majority of the respondents 26 (74.3%) had Bachelor's degrees, it implied that the bank recruits more degree holders to run her operations and effect the internal control measures. It also explained why respondents who participated in the study interpreted and answered the questions very well.

4.2.3 Respondents' employment positions.

Respondents were asked to indicate the employment positions they held within the bank. This was intended to find out whether their responses would be similar although with different positions and tasks. The results are as illustrated on the table below;

Table 4.3 Showing respondents' employment positions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Officer	30	85.7	85.7	85.7
	Customers	5	14.3	14.3	100.0
	Total	**35**	**100.0**	**100.0**	

Source: *Field data*

From the table above majority 30 (85.7%) of the respondents for the study were officers and only 5 (14.3%) were customers. This implies that the bank has more officers who could easily be accessible to participate in such studies. This is supported by the human resource records like the staff lists (2012).

4.2.4 Respondents by Period of Service

Respondents were asked to indicate the period of service. This aimed at establishing the number of employees that fit in the time scope of the study in relation to study variables. The results were as shown below;

Table 4.4 showing respondents' period of service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	18	51.4	51.4	51.4
	4-6 years	12	34.3	34.3	85.7
	7-9 years	2	5.7	5.7	91.4
	10 and above	3	8.6	8.6	100.0
	Total	35	100.0	100.0	

Source: *Primary Data*

From table 4.5 above, the study revealed that the significant number of respondents 18 (51.4%) have worked with post bank Kanungu branch for a period between1- 3 years , while 12 (34.3%) have worked for 4-6 years , 2 (5.7%) have worked for 7-9 years and 3 (8.6%) have spent 10 and above years working with the bank. This could imply that majority of respondents had good background knowledge about the study variables.

4.3 Internal controls and performance of Post Bank.

The study was aimed at investigating the relationship between internal controls and performance of post bank Kanungu branch. Internal controls were looked at on the dimensions of; control environment, control activities and risk management which formed the basis of specific objectives. In this part, study findings are presented, analyzed and interpreted according to the study objectives. The presentation indicates; views and opinions of respondents from interviews conducted, questionnaires administered plus information got from document reviewed.

4.3.1 Control environment and performance of Post Bank.

The first objective of this study was to assess the relationship between control environment and performance at Post Bank Kanungu and Ntungamo. To achieve this, respondents were subjected to 10 statements that describe the control environment in their institution and their opinions were illustrated on the table below;

Table: 4.5 Description of control environment by Respondents

Control environment		**Frequencies and percentage responses**				
		SA	**A**	**N**	**D**	**SD**
1.	Ethical values are upheld in all management decisions.	13 (37.1%)	18 (51.4%)	03 (8.6%)	01 (2.9%)	-
2.	The bank has an approved code of ethical conduct.	16 (45.7%)	17 (48.6%)	02 (5.7%)	-	-
3.	Management promotes high integrity standards.	14 (40.0%)	16 (45.7%)	04 (11.4%)	01 (2.9%)	-
4.	Staff is trained in anti ethical practices.	07 (20.0%)	16 (45.7%)	08 (22.9%)	04 (11.4%)	-
5.	Un ethical behaviors are punishable	15 (42.9%)	16 (45.7%)	03 (8.6%)	01 (2.9%)	-
6.	HR goals are in line with those of the bank.	17 (48.6%)	15 (42.9%)	03 (8.6%)	-	-
7.	There is an open communication to and from HR-department.	10 (28.6%)	17 (48.6%)	04 (11.4%)	04 (11.4%)	-
8.	Job description exists in the bank.	15 (42.9%)	14 (40.0%)	04 (11.4%)	02 (5.7%)	-
9.	Job openings are offered to current employees.	09 (25.7%)	18 (51.4%)	05 (14.3%)	03 (8.6%)	-

10.	Turnover rate is monitored by HR	08 (22.9%)	09 (25.7%)	14 (40.0%)	03 (8.6%)	01 (2.9%)

Source: *Primary Data*

Key: SA = Strongly Agree, A = Agree, N = Not sure, D = Disagree, SD = Strongly Disagree

From the table above, it can be said that Ethical values were upheld in all management decisions since majority 31 (88.6%) the respondents stated so. Only 01 (2.9%) respondent disagreed with the statement where as 03 (8.6%) respondents were un decided. This therefore implied that the banks decisions were in line with the approved ethical standards for all commercial banks which have facilitated the bank's better performance. This was supported by the interview findings from one of the managers when he said "*values are like principles and in management a principle is principle you either abide by it in decision making or resign your position".*

Besides that, the bank had an approved code of ethical conduct since majority 33(94.3%) of the respondents stated so where as 02 (5.7%) were un decided. This implies that there were fewer cases of ethical misconduct since there was a Human resource policy document elaborating the approved code of conduct. This was confirmed by one board member when he said "*by the way I have never called here for any indiscipline case…….it seems here staff work as per their job descriptions following the code of ethical conduct as approved by BOU*" Furthermore, the management promotes high integrity standards since only 30 (85.7%) of the respondents agreed with the statement, 01(2.9 %) of the respondents disagreed where as 04 (11.4%) of the respondents were not sure. More to that, Staff are trained in anti ethical practices since majority 23 (65.7%) of the respondents agree with the statement, only 4 (11.4%) of the respondents disagree with the statement where as 08 (22.9%) were not sure. This implied that the staffs at post Bank Kanungu and Ntungamo branches have work related skills that are professional and ethically upright which facilitated better performance. This was confirmed by the internal control workshop reports found at the branches. In addition to that, un ethical behaviors were punishable. 31 (88.6%) of the respondents agreed with the statement, 01 (2.9%) of the respondents disagreed with the statement where as 03(8.6%) were not sure. This implied that supervisors at post bank consider ethics of the staff to be an engine of performance. This was confirmed by one supervisor when he said that "*un ethical behaviors are categorized under indiscipline and obviously they are punishable since they impede performance*" Further still, HR goals are in line with those of the bank since majority 32 (91.4%) of the respondents stated so, whereas 03 (8.6%) of the respondents were un decided. This implied that strategic management for improved performance was honored. This was supported by the banks operations policy.

There is an open communication to and from HR-department as stated so by 27 (77.1%) of the respondents, disagreed, 04 (13.3%) of the respondents disagreed with the statement whereas 04 (13.3%) respondents were un decided. This implied that information flows very well to and from the HR department as all channels of communication were open which leads to effective communication. This was supported by the banks operations policy.

From the table above, it can be said job description exists in the bank since 29 (82.9%) of the respondents agreed with the statement, 02 (5.7%) of the respondents disagreed with the statement whereas 04 (13.3%) were un decided. Moreover, job openings are offered to current employees since majority 27 (77.1%) of the respondents stated so, 03 (8.6%) of the respondents disagreed with the statement whereas 05 (14.2%) of the respondents were un decided. All these were indicators that each staff knows what he or she is meant to be doing and achieving for the branch. Besides that, turnover rate is monitored by HR since majority 17(48.6%) of the respondents agreed with the statement, 04 (13.4%) of the respondents disagree where as 14 (40%) of the respondents were not sure. This implied that post bank carry out human resource fore cast to enable the bank be supplied with the human resource required at all time in order not to compromise their performance and also endeavors to facility present employees in order to keep them with institution a period of time. This was confirmed by the banks human resource periodic report of December 2012.

4.3.1.1 Hypothesis testing.

To find out whether there was a significant relationship between control environment and performance of Post Bank a correlation analysis was computed, examined and interpreted using Pearson product moment correlation co-efficient method. The results are elaborated below

Table 4.6: showing the Correlations between control environment and performance of post bank.

		control environment related variables	performance of post bank
Control environment related variables	Pearson Correlation	1	.410*
	Sig. (2-tailed)		.014
	N	35	35
Performance of post bank	Pearson Correlation	.410*	1
	Sig. (2-tailed)	.014	
	N	35	35

Table 4.6: showing the Correlations between control environment and performance of post bank.

		control environment related variables	performance of post bank
Control environment related variables	Pearson Correlation	1	.410*
	Sig. (2-tailed)		.014
	N	35	35
Performance of post bank	Pearson Correlation	.410*	1
	Sig. (2-tailed)	.014	
	N	35	35

*. Correlation is significant at the 0.05 level (2-tailed).

The findings in the table above showed that the correlations between control environment and performance of post bank. The findings indicated that the Pearson correlation ($r = 0.410$), the significance value p (.014), N represents the number of respondents (35). Control environment indicates a moderate strength of association ($r = 0.410$) and the correlation was statistically significant (high) because $p = .014 < 0.05$. This implied that control environment was positively related with performance of post Bank and therefore does support the hypothesis that there was a significant relationship between control environment and performance of post Bank.

4.3.1.2 Regression analysis.

On the basis of results above, a regression analysis was done to ascertain the extent to which control environment explains performance of post bank. Below is the table indicating the summary of the results;

Table 4.7: showing a Model Summary of control environment and performance of Post Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410[a]	.168	.143	.443

a. Predictors: (Constant), control environment related variables

The Model Summary table above, revealed that correlation coefficient *(R),* using the predictor; control environment, was .410 and the R^2 (.168). The R demonstrated correlation; R^2 demonstrated how a set of independent variable explained variations of a dependent variable on a sample population where as adjusted R^2 demonstrated percentage of variance the independent variable explains on the dependent variable on the target population (Mugenda and Mugenda, 1999). This implied that 16.8% (.168*100%) of performance of Post Bank was explained by control environment on a sample population where as 14.3% (.143*100) of the performance of post Bank was explained by control environment on the target population, while the remaining percentage can be explained by other factors. Therefore this can be interpreted that if Post Bank Kanungu branch can maintain an effective control environment, the bank's performance can be maintained.

From the above finding we accept the hypothesis that there is a significant relationship between control environment and performance of Post Bank Kanungu and Ntungamo.

4.3.2 Control activities and performance of Post Bank.

The second objective of this study was to examine the relationship between control activities and performance at Post Bank. To achieve this, respondents were subjected to 15 statements that describe the control activities in their institution. Opinions were illustrated on the table below;

Table 4.8: Description of control activities by Respondents

Control activities		**Frequencies and percentage responses**				
		SA	**A**	**N**	**D**	**SD**
1.	All transactions above teller limits are authorized.	21 (60.0%)	08 (22.9%)	05 (14.3%)	01 (2.9%)	-
2.	All transactions in the system are verified.	16 (45.7%)	15 (42.9%)	02 (5.7%)	01 (2.9%)	01 (2.9%)
3.	Bank reconciliations are prepared.	14 (40.0%)	19 (54.3%)	02 (5.7%)	-	-
4.	Bank reconciliations are approved by the management.	09 (25.7%)	19 (54.3%)	06 (17.1%)	01 (2.9%)	-
5.	Authorization rights are given to right people.	14 (40.0%)	11 (31.4%)	06 (17.1%)	04 (11.4%)	-
6.	There is some physical access to securities.	07 (20.0%)	11 (31.4%)	10 (28.6%)	04 (11.4%)	03 (8.6%)
7.	All assets acquired are safeguarded.	14 (40.0%)	18 (51.4%)	03 (8.6%)	-	-
8.	There exists an updated assets register.	17 (48.6%)	13 (37.1%)	04 (11.4%)	01 (2.9%)	-
9.	Assets are engraved when purchased.	15 (42.9%)	17 (48.6%)	01 (2.9%)	02 (5.7%)	-
10.	Assets are periodically counted and confirmed.	13 (37.1%)	14 (40.0%)	05 (14.3%)	03 (8.6%)	-

11.	Separation of duties is provided for in the banks organization structure.	11 (31.4%)	22 (62.9%)	01 (2.9%)	01 (2.9%)	-
12.	Lack of segregation of duties leads to administrative errors.	11 (31.4%)	15 (42.9%)	07 (20.0%)	02 (5.7%)	-
13.	Staff knows their duties and responsibilities.	16 (45.7%)	16 (45.7%)	02 (5.7%)	01 (2.9%)	-
14.	Staff is rotated to more than one desk of responsibility.	07 (20.0%)	14 (40.0%)	02 (5.7%)	09 (25.7%)	03 (8.6%)
15.	Dual control is maintained in all management decisions.	10 (28.6%)	19 (54.3%)	02 (5.7%)	03 (8.6%)	01 (2.9%)

Source: *Primary Data*

Table 4.15 above explains that 28 (80%) of the respondents indicated that all transactions above teller limits are authorized. 31 (88.5%) of the respondents indicated that all transactions in the system are verified. This was an indicator that majority of the respondents were in agreement with the statements which implies that all transaction in the system are verified. Besides that, 33 (94.2%) of the respondents agreed that bank reconciliations are prepared, 28 (80%) agreed that bank reconciliations are approved by the management. Since majority of the respondents were in agreement with the statements as illustrated on the table above, it implied that the activity of making bank reconciliation improves the banks performance. This was supported by one interviewee when he said that "*.....minus bank reconciliation statements how can you know that you are on the right truck.....therefore it is mandatory for the officers in charge to make bank reconciliation reports and forward them for approval….*" In addition to that, 25 (71.4%) of the respondents agreed that authorization rights are given to right people, 18 (51.4%) of the respondents agreed that there is some physical access to securities however 10 (28.5%) of the respondents were not sure about it. Like the one above, majority of the respondents were in agreement with the statement an indicator that one of the control activities that has facilitated performance of Post Bank was authorization. This was confirmed by the audit report 2010-2013.

More to that, 32 (91.4%) agreed that all assets acquired are safeguarded, 30 (85.7%) of the respondents indicate that there exists an updated assets register, 32 (91.4%) of the respondents agreed that assets are engraved when purchased. 27 (77.1%) of the respondents indicate that Assets are periodically counted and confirmed. This implies that safeguarding the assets; updating asset register by periodically counting and confirming the assets lead to improved performance. This was confirmed by one interviewee when he lamented that *"…….assets are crucial inputs of every business and when mishandled or misused can lead to business losses……and here at Post Bank we are in business therefore we have to safeguard our assets if we are to keep in business*" This too was validated by the asset register book reviewed. From the above table, 33 (94.2%) of the respondents indicated that separation of duties is provided for in the banks organization structure, 26 (74.2%) agreed that separation of duties is provided for in the banks organization structure 32 (91.4%) agreed that staff knows their duties and responsibilities, 21 (60%) indicated that staff is rotated to more than one desk of responsibility compared to 12 (34.2%) who disagree with the statement. Moreover 29 (82.8%) of the respondents agreed that dual control is maintained in all management decisions at Post Bank Kanungu branch. The above results implied that the majority of the respondents agreed that control activities to a bigger extent affect the performance of Post Bank given the fact that many of the respondents agreed that the dimensions examined under control activities were to the large extent being adhered to.

4.3.2.1 Hypothesis testing

To find out whether there was a significant relationship between control activities and performance of Post Bank Kanungu and Ntungamo branches a correlation analysis was computed, examined and interpreted using Pearson product moment correlation co-efficient method. The results were elaborated below;

Table 4.9: showing Correlations between control activities and performance of Post Bank

		performance of post bank	control activities related variables
Performance of Post Bank	Pearson Correlation	1	.599**
	Sig. (2-tailed)		.000
	N	35	35
Control activities related variables	Pearson Correlation	.599**	1
	Sig. (2-tailed)	.000	
	N	35	35

**. Correlation is significant at the 0.01 level (2-tailed).

From the table above, correlations between control activities and performance of Post Bank are illustrated. The findings indicated the Pearson correlation (r = 0. 599), the significance value p (.000), N represented the number of respondents (35). Control activities indicated a moderate strength of association (r = 0.599) and the correlation was statistically significant (very high) because p = .000 < 0.01. This implied that control activities were positively related with performance of Post Bank and therefore does support the hypothesis that there is a significant relationship control activities and performance of Post Bank.

4.3.2.2 Regression analysis

A regression analysis was further done to ascertain the extent to which control environment explained performance of post bank. Below was the table indicating the summary of the results;

Table 4.10:shows a Model Summary of control activities and performance of Post Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599[a]	.358	.339	.389

a. Predictors: (Constant), control activities related variables

From the table above, 35.8% (.358*100%) of performance of Post Bank was explained by control environment on a sample population where as 33.9 % (.339*100) of the performance of Post Bank was explained by control activities on the target population and the remaining percentage can be explained by other factors. Therefore this can be interpreted that if Post Bank Kanungu and Ntungamo branches can maintain their control activities the banks performance can also be maintained.

From the finding above, the degree of relationship being 35.8% then we accept that there was a significant relationship between control activities and performance of Post Bank Kanungu and Ntungamo.

4.3.3. Risk management and performance of Post Bank.

The third objective of this study was to ascertain the relationship between risk management and performance at Post Bank Kanungu and Ntungamo. To achieve this, respondents were subjected to 15 statements that describe the control activities in their institution. Opinions are illustrated on the table below;

Table 4.11: Description of risk management by Respondents

Risk management		**Frequencies and percentage responses**				
		SA	**A**	**N**	**D**	**SD**
1.	There exists a risk management policy in the bank.	11 (31.4%)	15 (42.9%)	08 (22.9%)	01 (2.9%)	-
2.	The effectiveness of risk management is central to branch performance.	11 (31.4%)	15 (42.9%)	06 (17.1%)	03 (8.6%)	-
3.	Staff understands ways of identifying risk.	08 (22.9%)	17 (48.6%)	05 (14.3%)	03 (8.6%)	02 (5.7%)
4.	Management appropriately evaluates risks.	05 (14.3%)	21 (60.0%)	07 (20.0%)	02 (5.7%)	-
5.	The bank's policy encourages training programs on risk management.	05 (14.3%)	19 (54.3%)	06 (17.1%)	03 (8.6%)	02 (5.7%)
6.	Staff is provided with resources to mitigate risk.	04 (11.4%)	19 (54.3%)	06 (17.1%)	05 (14.3%)	01(2.9%)
7.	Management addresses technology issues in risk assessment process.	04 (11.3%)	22 (62.9%)	04 (11.4%)	03 (8.6%)	02 (5.7%)
8.	There is competent staff to manage the banks risk department.	08 (22.9%)	21 (60.0%)	03 (8.6%)	02 (5.7%)	01 (2.9%)
9.	There is proper risk monitoring.	07 (20.0%)	19 (54.3%)	07 (20.0%)	02 (5.7%)	-
10.	Internal controls are revised to address new risk threats.	06 (17.1%)	20 (57.1%)	04 (11.4%)	04 (11.4%)	01 (2.9%)
11.	Risk assessment is done at all	08	17	08	01	01

	levels of the bank.	(22.9%)	(48.6%)	(22.9%)	(2.9%)	(2.9%)
12.	Monitoring the effectiveness of risk management is an integral part of routine management reporting.	09 (25.7%)	16 (45.7%)	06 (17.1%)	03 (8.6%)	01 (2.9%)
13.	The level of controls is appropriate for risk mitigation.	10 (28.6%)	19 (54.3%)	05 (14.3%)	01 (2.9%)	-
14.	The banks management regularly reviews the organizations performance in managing business risk.	06 (17.1%)	20 (57.1%)	07 (20.0%)	02	-
15.	The bank views the supervisory role of bank of Uganda as a critical in risk management.	12 (34.3%)	14 (40.0%)	08 (22.9%)	-	01 (2.9%)

Source: *Primary Data*

Table 4.7 above explains that 26 (74.2%) of the respondents indicated that there exists a risk management policy in the bank; 26 (74.2%) of the respondents indicated the effectiveness of risk management is central to branch performance; 25 (71.4%) of the respondents agreed that staff understands ways of identifying risk; 26 (74.2%) of the respondents agreed that management appropriately evaluates risks; 24 (68.5%) of the respondents agreed that the bank's policy encourages training programs in risk management; 23 (65.7%) of the respondents agreed that staff is provided with resources to mitigate risk; 26 (74.2%) of the respondents agreed that management addresses technology issues in risk assessment process; 28 (80%) of the respondents indicated that there is competent staff to manage the banks risk department; 26 (74.2%) of the respondents agreed there is proper risk monitoring; 26 (74.2%) of the respondents agreed that internal controls are revised to address new risk threats; 25 (71.4%) of the respondents are in agreement with the statement that risk assessment is done at all levels of the bank; 25 (71.4%) of the respondents agreed that monitoring the effectiveness of risk management is an integral part of routine management reporting; 29 (82.8%) of the respondents agreed that the level of controls is appropriate for risk mitigation; 26 (74.2%) of the respondents indicated that the banks management regularly reviews the organizations performance in managing business risk; 26 (74.2%) of the respondents agreed that the bank views the supervisory role of Bank of Uganda as a critical in risk management.

4.3.3.1 Hypothesis testing

To ascertain whether there was a significant relationship between risk management and performance of Post Bank a correlation analysis was computed.

Table 4.12: shows Correlations between risk management and performance of Post Bank

		Performance of Post Bank	Risk management related variables
Performance of Post Bank	Pearson Correlation	1	.658**
	Sig. (2-tailed)		.000
	N	35	35
Risk management related variables	Pearson Correlation	.658**	1
	Sig. (2-tailed)	.000	
	N	35	35

**. Correlation is significant at the 0.01 level (2-tailed).

The table above illustrated correlations between risk management and performance of Post Bank. The findings indicated the Pearson correlation (r = 0. 658), the significance value p (.000), N represents the number of respondents (35). Risk management indicated a high strength of association (r = 0.658) and the correlation was statistically significant (very high) because p =

.000 < 0.01. This implied that risk management was positively related with performance of Post Bank and therefore does support the hypothesis that there was a significant relationship risk management and performance of Post Bank.

4.3.3.2 Regression analysis

A regression analysis was further done to ascertain the extent to which control environment explains performance of Post Bank. Below was the table indicating the summary of the results;

Table 4.13: shows the Model Summary of risk management and performance of Post Bank

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.658[a]	.433	.416	.366

a. Predictors: (Constant), risk management related variables.

The Model Summary table above, revealed that correlation coefficient *(R),* using the predictor; risk management, is .658 and the R^2 (.433). The R demonstrated correlation; R^2 demonstrated how a set of independent variable explained variations of a dependent variable on a sample population where as adjusted R^2 demonstrated percentage of variance the independent variable explained on the dependent variable on the target population. This implied that 43.3% (.433*100%) of performance of Post Bank is explained by risk management on a sample population where as 41.6% (.416*100) of the performance of Post Bank was explained by risk management on the target population, while the remaining percentage can be explained by other factors. Therefore this can be interpreted that if the two branches can keep risks management practices the banks performance may be maintained.

From the above analysis, the results indicated a 43.3% relationship and we thus accept the hypothesis results that there was significant relationship between risk management and performance of Post Bank Kanungu and Ntungamo Branches.

4.4 Performance of Post Bank

A number of statements were posed to the respondents in regard to the variable above and the responses were given as indicated below;

Table 4.14 shows description of performance by respondents

Performance of post bank		Frequencies and percentage responses				
		SA	**A**	**N**	**D**	**SD**
1.	The bank has a profit target.	22 (62.9%)	09 (25.7%)	03 (8.6%)	-	01 (2.9%)
2.	Profitability reports are prepared.	24 (68.6%)	09 (25.7%)	01 (2.9%)	-	01 (2.9%)
3.	Monthly profit and loss statements are generated from the system.	25 (71.4%)	08 (22.9%)	01 (2.9%)	-	01 (2.9%)
4.	Staff understands their contribution to the overall profit target.	15 (42.9%)	18 (51.4%)	01 (2.9%)	01 (2.9%)	-
5.	Profit and loss statement for a year is displayed.	19 (54.3%)	12 (34.3%)	03 (8.6%)	-	01 (2.9%)
6.	Reporting is done regularly.	16 (45.7%)	15 (42.9%)	03 (8.6%)	-	01 (2.9%)
7.	Financial reports reflect the facts about the institution.	18 (51.4%)	13 (37.1%)	03 (8.6%)	01 (2.9%)	-
8.	Feed back on reports is received at the branch.	13 (37.1%)	15 (42.9%)	06 (17.1%)	01 (2.9%)	-

9.	Reporting is fundamental at the bank	20 (57.1%)	13 (37.1%)	01 (2.9%)	-	01 (2.9%)
10.	Demands for new loans exceed liquidity levels.	08 (22.9%)	11 (31.4%)	05 (14.3%)	09 (25.7%)	02 (5.7%)
11.	The banks liquidity policies and procedures are adequate.	10 (28.6%)	12 (34.3%)	11 (31.4%)	02 (5.7%)	-
12.	The bank has experienced and competent staff to monitor liquidity.	09 (25.7%)	19 (54.3%)	06 (17.1%)	-	01 (2.9%)
13.	Liquidity reports provide meaningful information.	13 (37.1%)	17 (48.6%)	05 (14.3%)	-	-
14.	Management assesses assets liquidity.	11 (31.4%)	15 (42.9%)	09 (25.7%)	-	-
15.	Staff knows how liquidity is measured.	07 (20.0%)	09 (25.7%)	10 (28.6%)	03 (8.6%)	06 (17.1%)

Source: *Field data*

From the table above, majority of the respondents were in agreement with almost all the statements implying that the above statements are indicators of performance at Post Bank Kanungu branch that are honored by all the staff irrespective of their positions.31 (88.6%) respondents accepted that the bank as a profit target, 33 (94.3%) respondents agreed that profitability reports are prepared, 33 (94.3%) respondents agreed that profit and loss statements are generated from the system, 33(94.3%) respondents agreed that staff understand their contribution to the overall profit target, 31(88.6%) respondents agreed that profit and loss statements for the year are prepared, 31(88.6%) respondents agreed that reporting is done regularly, 31(88.6%) respondents agreed that financial statements reflect the performance of the bank, 28(80%) respondents agreed that feed back on reports is received at the branch, 33(94.3%) respondents agreed that reporting is fundamental at the bank, 19(54.3%) respondents agreed that demand for new loans exceeds liquidity levels, 22(62.9%) respondents agreed that the banks liquidity policies and procedures are adequate 28(80%) respondents agreed that the bank has competent staff to monitor liquidity levels, 30(85.7%) respondents agreed that liquidity reports provide meaningful information, 26(74.3%) respondents agreed that management assesses asset liquidity and 16(45.7%) respondents agreed that staff know how liquidity is measured.

4.4.1 Summary of the overall Regression analysis of study variables

The findings as discussed above showed by the frequencies, correlations, regression and tested hypothesis between control environment, control activities, and risk management. The findings accepted and supported all the hypotheses as proposed and they were found out to positively having both moderate and high significance. Further analysis on the study variables was done to find out how the IV influences the DV. This is illustrated on the table below;

Table 4.15: shows a model summary of the regression analysis of the study variables

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.410[a]	.168	.143	.443	.001	.018	1	33	.895
2	.599[b]	.358	.339	.389	.168	6.489	1	32	.016
3	.658[c]	.433	.416	.366	.191	9.243	1	31	.005
4	.694	.481	.412	.367	.121	7.025	1	30	.013

a. Predictors: (Constant), background information variables

b. Predictors: (Constant), background information variables, control environment related variables

c. Predictors: (Constant), background information variables, control environment related variables, control activities related variables

d. Predictors: (Constant), background information variables, control environment related variables, control activities related variables, risk management related variables

e. Dependent Variable: performance of Post Bank.

From the above table, r (.410, .599, .658) shows correlations of study variables, r square (.168, .358, .433,) indicate how independent variables explain the dependent variable on a sample population, adjusted r square (.143, .339, .416) explain the percentage of variance the independent variables explain the dependent variable on a target population. This is explained as follows; Bio-data alone influences performance of post bank by 16.8% on a sample population, 14.3% on the target population with no significance. Bio-data and control environment influence banks performance by 35.8% on a sample population and 33.9% on the target population and the level of confidence is 90%. Bio-data, control environment and control activities explain the banks performance by 43.3% on a sample population and 41.6% on a target population and the level of confidence is at 95%. All the variables; bio-data, control environment, control activities and risk management explain the banks performance by 48.1% on a sample population and 41.2% on the target population with the level of confidence significance at 90%. This implies that the independent variables worked together to predict performance of Post Bank.

However, when taken singly, risk management is the highest predictor of variance in the bank's performance with highest magnitude of correlation Coefficient of .659, highest percentage of variance of 43.3% / 41.6% on a sample and target population respectively plus the highest level of confidence at 99% . It is followed by control activities with correlation Coefficient of .599, percentage of variance of 35.8 % / 33.9% on a sample and target population respectively plus the level of confidence at 99%. Leaving control environment to be the least predictor of the bank's performance with correlation Coefficient of .410, percentage of variance of 16.8 % / 14.3% on a sample and target population respectively plus the level of confidence at 90%.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction.

This chapter presents the summary of study findings, discussion of major findings, conclusion, and recommendations of the study, limitations and areas for further research.

5.1 Summary of findings.

Overall, findings from the study indicate that there is both moderate and high positive relationship between control environment, control activities plus risk management and performance at Post Bank. A change in performance of financial institutions can be explained by control environment, control activities and risk management at 41.8% only. The descriptive and inferential analysis showed more empirical findings on the existing relationship between the variables under study. These were summarized according to the objectives of the study as hereunder.

5.1.1 Control environment and performance at Post Bank.

Under control environment, assessment of ethical values and human resource policy were done. The findings indicate that; Ethical values are upheld in all management decisions, the management promotes high integrity standards, Staff are trained in anti ethical practices, un ethical behaviors are punishable, HR goals are in line with those of the bank, there is an open communication to and from HR-department, job description exists in the bank, turnover rate is monitored. These support the hypothesis that there is a significant relationship between control environment and performance at Post Bank explained by 41%.

5.1.2 Control activities and performance at Post Bank.

For the second dimension of Control activities, strong emphasis was put on the; Authorization and reconciliation, Asset security and reviews plus Segregation of duties. The findings indicate that; all transactions above teller limits are authorized, authorization rights are given to right people, all assets acquired are safeguarded, separation of duties is provided for in the banks organization structure, staff knows their duties and dual control is maintained in all management decisions therefore confirming the hypothesis that there is a significant relationship between Control activities and performance at Post Bank which is explained by 59%.

5.1.3 Risk management and performance at Post Bank.

Risk management was scrutinized following the indicators of; Risk identification, Risk assessment and analysis and Risk monitoring to find out their relationship with performance at Post bank. The findings indicate that; there exists a risk management policy in the bank, staff understands ways of identifying risk, management appropriately evaluates risks, staff is provided with resources to mitigate risk, management addresses technology issues in risk assessment process, there is proper risk monitoring, internal controls are revised to address new risk threats, monitoring the effectiveness of risk management is an integral part of routine management reporting and the banks management regularly reviews the organizations performance in managing business risk. These results reflect respondents' opinions that support the hypothesis that there is a significant relationship between Risk management and performance at Post Bank reflected by 65%.The study findings led to the conclusion that there is a positive significant relationship between internal controls and performance at Post Bank although there are other factors like political and environmental factors that were also pointed out by some respondents during interviews.

5.2 Discussion of findings.

The presentation follows the order in which the objectives of the study were stated in chapter two. It considers possible explanations for the results with various views from other scholars.

5.2.1 Control environment and performance at Post Bank.

The first objective of the study was to assess the relationship between control environment and performance at Post Bank Kanungu. Control environment was examined under the components of; ethical values and human resource policy. Study finding revealed a positive correlation between Control environment and performance at Post Bank. This implies that when the banks' environment is controlled performance is likely to change. Conversely, the findings imply that controlled environment increases the banks performance and the reverse is true.

The findings of the current study were cross referenced with those of scholars and they indicate some level of corroboration. For example the findings in chapter four indicate that by upholding ethical values performance has improved at Post Bank. This corroborates with by Lloyd, (2005) who asserts that the way financial institutions use money is not irrelevant from a moral and ethical perspective. Theofanis (2006); Subramanian et al.., (2006) asserts that the control environment should display strong ethical values. This is also supported by the Audit report (2011) which asserts that the words, attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the banks control culture thus impede performance.

The findings of the current study especially on the issue human resource policy agree closely with the views of Rae & Subramaniam (2006) when they expressed that the core of any institution is its people and they are the engine that drives the institution. They are supported by Griffiths & Krishnan (2005); Dezoort and Salterio (2001); and Griffiths (2006) who assert that effective human resource policies and procedures enhance an institution's control environment thus improved performance.

All in all the importance of control environment cannot be under played if Post Bank Kanungu branch is to continuously improve on her service delivery. There is strong need for the bank to ensure that their employees have ethical values and they align their personal goals with the banks goals ultimately if these are done, improved performance at post bank is likely to occur.

5.2.2 Control activities and performance at Post Bank.

The second objective of the study was to examine the relationship between control activities and performance at Post Bank Kanungu. Control activities in this study was looked at; Authorization and reconciliation, Asset security and reviews, Segregation of duties.

Study findings indicate that all transactions above teller limits are authorized which has facilitated better performance at Post Bank. This is in agreement with Khan (2006) who argues that Authorization is a control activity designed to ensure events or transactions are initiated and executed by those approved by management. Moreover, study findings indicate that bank reconciliations are prepared. This is in corroboration with Sebbowa (2009) when he asserted that reconciliations should be documented and approved by management since this control activity helps to ensure the accuracy and completeness of transactions that have been charged to a department's account thus improved performance.

Study findings indicate that all assets acquired are safeguarded. This is in agreement with Sebbowa, (2009) that Liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems and confidential information must be safeguarded against unauthorized acquisition, use or disposition if performance is to improve.

Findings reveal that separation of duties is provided for in the banks organization structure. This concurs with Freeland & Friedman (2007) when they said that's segregation of duties helps to provide assurance that transactions are valid, accurately reported, in compliance with rules and regulations and in accordance with the organization's goals and objectives.

In conclusion therefore, it can be noted that control activities and performance at Post Bank Kanungu cannot easily be separated since the former influences the latter. Therefore for the bank to maintain or even improve her performance, control activities should be strengthened.

5.2.3 Risk management and performance at Post Bank.

The third objective of the study was to ascertain the relationship between risk management and performance at Post Bank Kanungu. The objective considered the banks institutions' reaction towards; Risk identification, Risk assessment and analysis plus Risk monitoring visa vie performance. The findings revealed a positive correlation between Risk management and performance at Post Bank. This corroborates with Boston consulting group (2001); Puasenberger and Nassuer (2000) that ascertained that it is important for staff of banking institutions to understand the aspect of risk in the banking operations and the risk that are inherent and exposed in their business operations and that t is important to ensure that the risk management function is established throughout the whole corporation. Onyango, (2007) further contends that any bank first has to have in place an effective process to indentify risk and measure their potential impact.

Study findings also indicate that management appropriately evaluates risks this corroborates with Cahill (2006) and Sawyer (2003) findings that Banks are in the business of risk taking. Consequently it is imperative that, as part of an internal control system, these risks be recognized and continually assessed by evaluating the risks to determine which are controllable by the bank and which are not.

Further still, findings indicate that there is proper risk monitoring at Post bank this is in line with Tamimi and Al-Mazrooei (2007); Pausenberger and Nassauer, (2005); Luck (1998) and Khan & Ahmad (2001) who found out that Banks must have regular management information systems for measuring, monitoring, controlling and reporting different risk exposures.

5.3 Conclusions

5.3. 1 Control environment and performance at Post Bank.

From the study findings, it can be concluded that Control environment has a significant effect on performance. This means that any efforts put in Control environment in form of; upholding ethical values, maintaining an approved code of ethical conduct, Staff training in anti ethical practices, reprimanding un ethical behaviors, aligning HR goals with those of the bank, creating free and open channels of communication plus monitoring the turnover rate may increase performance at Post Bank.

5.3.2 Control activities and performance at Post Bank.

From the study findings, it can be concluded that Control activities have a significant moderate effect on performance. This means that any attempt to verify and authorize all transactions above teller limits, prepared and approve Bank reconciliations, acquired assets and safeguard them, Separate staff duties as provided for in the banks organization structure may improve performance at Post Bank.

5.3.3 Risk management and performance at Post bank.

From the study findings, it can be concluded that Risk management has an effect on performance at Post Bank. This means that if the there exists a risk management policy in the bank that is operational, Staff understands ways of identifying risk, Management appropriately evaluates risks, The bank's policy encourages training programs in risk management, There is proper risk monitoring, Risk assessment is done at all levels of the bank, then performance will increase.

5.4 Recommendations

The study came up with the following recommendations based on the findings and conclusions above and are presented under three study objectives;

5.4.1 Control environment and performance at Post Bank

- Management of Post Bank should strengthen the approved ethical code of conduct for promotion of high integrity standards in order to avoid cases of fraud which may affect the performance of the bank.
- The head of Human resources should set human resource goals that are in line with those of the bank by following the human resource policy since human resources are the most vital part of the bank, they determine the performance.

5.4.2 Control activities and performance at Post bank.

- Management should advise the ICT-department to give authorization rights to the right people by making adjustments in the system in order to overcome cases of miss use of the system user rights which in the long run leads to system abuse.
- Management should advise the procurement department to safe guard all assets acquired by updating the asset register and engraving the assets to avoid cases of theft from the users.

5.4.3 Risk management and performance at post bank

- Management should seek Staff opinion in designing of the risk management policy such that it becomes much easier for them to own up in case a risk occurs and seek adequate solution without necessary seeking management decision.
- The risk management policy of the bank should be operationalised by making it available to staff whenever they need it. This helps the staff adapt to it much faster other than waiting for risk to occur.

5.5 Limitations of the Study.

The fact that the study was carried out among Post Bank employees by a fellow employee (researcher) most of the respondents were at first hesitant to respond timely to the instruments. They thought it was an investigation being carried out which may eventually pin them down at one point in time. However the researcher used research assistants to collect the data from the respondents who would explain to them the purpose of the study thus able to access information.

5.6 Contributions of the study

The study has in the process of achieving its primary objectives made a humble contribution to the existing body of knowledge in the areas of internal controls and performance at Post Bank.

Basing on the empirical findings presented in chapter four, banks can implement good systems that would help them improve their performance.

5.7 Areas for further Research

Since performance at Post Bank Kanungu branch can be explained by internal controls, at 48.1% only, further research can be conducted on other factors that affect performance.

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Appendix: A

QUESTIONNAIRE FOR POST BANK KANUNGU AND NTUNGAMO STAFF ON INTERNAL CONTROLS AND PERFORMANCE OF POST BANK.

Dear respondent, am Semanda Richard Junior offering a Masters degree in management studies of Uganda management institute on internal controls and performance of Post Bank taking Post Bank Kanungu and Ntungamo branches as a case studies. Am currently on the stage of data collection and thus kindly request you to fill the questionnaires below. No name is required and information provided will be kept confidential and will be used for academic purpose only. Thank you in advance for your response.

Section A

Respondents Background (circle the right choice)

A1. **Gender**

1. Male 2. Female

A2. **Level of Education**

1. Certificate/Diploma 2. Bachelors. 3. Post graduate Diploma 4. Masters

A3. **Position held in the institution.**

1. Officer 2. Supervisor 3. Manager 4. Others specify___________

A4. **Age bracket**

1. 18-25 2. 26-35 3. 36-45 4. 46 and above

A5. **Period of service**

1. 1-3years 2. 4-6 years 3. 7-9 years 4. 10 years and above.

Section B

Please rank the following statements ranging from strongly disagree to strongly agree where: 5-Strongly agree 4-Agree 3-Not sure 2-Disagree 1- Strongly disagree.

No	Statements	5	4	3	2	1
B1	**Control Environment**					
1	Ethical values are upheld in all management decisions					
2	The bank has an approved code of ethical conduct					
3	Management promotes high ethical integrity standards					
4	Staff are trained in anti-ethical practices					
5	Un ethical behaviors are punishable					
6	HR goals are in line with those of the bank					
7	There is an open communication to and from HR-Dept					
8	Job descriptions exist in the bank					

9	Job openings are offered to current employees					
10	Turn over rate is monitored by HR.					
B2	**Control Activities.**					
11	All transactions above teller limits are authorized					
12	All transactions in the system are verified					
13	Bank reconciliations are prepared.					
14	Bank reconciliations are documented and approved by management.					
15	Authorization rights are given to right people					
16	There is sole physical access to securities					
17	All assets acquired are safeguarded					
18	There exists an updated assets register					
19	Assets are engraved when purchased					
20	Assets are periodically counted and confirmed					
21	Separation of duties is provided for in the banks organization structure.					
22	Lack of segregation of duties leads to administrative					

	errors					
23	Staff know there duties and responsibilities					
24	Staff are rotated to more than one desk of responsibility					
25	Dual control is maintained in all management decisions					
B3	**Risk Management**					
26	There exists a risk management policy in the bank					
27	The effectiveness of risk management is central to branch performance.					
28	Staff understand ways of identifying risk					
29	Management appropriately evaluates risks					
30	The banks policy encourages training programs in risk management.					
31	Staff are provided with resources to mitigate risk					
32	Management addresses technology issues in risk assessment process.					
33	There are competent staffs to manage the banks risk department.					

34	There is proper risk monitoring					
35	Internal controls are revised to address new risk threats					
36	Risk assessment is done at all levels of the bank.					
37	Monitoring the effectiveness of risk management is an integral part of routine management reporting.					
38	The level of controls are appropriate for risk mitigation					
39	The banks management regularly reviews the organizations performance in managing business risk.					
40	The bank views the supervisory role of Bank of Uganda as critical in risk management.					
B4	**Performance of Post Bank**.					
41	The bank has a profit target					
42	Profitability reports are prepared					
43	Monthly profit and loss statements are generated from the system.					
44	Staffs understand their contribution to the overall profit target.					
45	Profit and loss statement for the year is displayed					

46	Reporting is done regularly					
47	Financial reports reflect the facts about the institutions					
48	Feed back on reports is received at the branch					
49	Reporting is fundamental at the bank					
50	Demand for new loans exceeds liquidity levels.					
51	The banks liquidity policies and procedures are adequate.					
52	The bank has experienced and competent staff to monitor liquidity.					
53	Liquidity reports provide meaningful information.					
54	Management assesses assets liquidity.					
55	Staffs know how liquidity is measured.					

Appendix: B

INTERVIEW SCHEDULE FOR BRANCH MANAGER, SUPERVISORS AND BOARD MEMBERS OF POST BANK KANUNGU AND NTUNGAMO.

Back ground information of respondents.

1-Department

2-Years of service

3-Title.

Control Environment.

1-What do you understand by the term Internal controls in your own context?

2- Does the bank have a well established organizational structure?

3-Does the structure show clear and defined roles for management and staff?

Control Activities.

1-Is there any written policy and procedure concerning approval and authorization of payments?

2-Are different people allocated different responsibilities?

Risk Management.

1-Does the bank have a clear Risk management policy?

2-Are staff given adequate trainings and sensitization on risk management?

3-What role does management play in risk management?

Performance of Post Bank.

1-Is management satisfied with the current profitability and liquidity levels of the bank?

2-Do financial reports indicate the strategic objectives of the bank?

Appendix: C

DOCUMENTARY REVIEW CHECKLIST FOR POSTBANK KANUNGU.

1. Human resource policy 2013
2. Operations Manual 2012
3. Branch meeting file
4. Credit Policy.