

**INTERNAL AUDIT AND FINANCIAL PERFORMANCE OF COMMERCIAL  
BANKS: A CASE STUDY OF STANBIC BANK MUKONO BRANCH**

**MICHAEL OFWONO**

**J23B05/036**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR  
OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

**September, 2024**



**UGANDA CHRISTIAN  
UNIVERSITY**

*A Centre of Excellence in the Heart of Africa*

## DECLARATION

### DECLARATION

I declare that the work is authentically mine and to the best of my knowledge, it contains no traces of plagiarism or any other unethical practices.

Signature.....



Date..... 09/09/2024

**OFWONO MICHAEL**

**APPROVAL**

This is to confirm that OFWONO MICHAEL carried out this research and it's ready for submission for the award of a Bachelor of Business Administration at Uganda Christian University.

Henry Mugisha, PhD  
Signature.....  
University Academic Supervisor  
Date: 4/9/2024

## ABSTRACT

For the purpose of this study the researcher sought to determine the effect of internal audit on financial performance of commercial banks in Uganda. The specific objectives of the study were to: determine the role of internal audit, effect and relationship between internal audit and financial performance of commercial banks in Uganda.

Chapter two aimed at illustrating the conceptual review, empirical , critical and summary of all the review.

Chapter three covered the methodology the researcher used in the field to collect data where the study adopted a descriptive cross-sectional research design. The population of the study consisted of the workers in Stanbic bank Mukono branch and thus from a targeted population of 43 members and using the Slovene's formula, the researcher was able to come up with an appropriate sample size of 20. Data was mostly collected by the help of self-administered and guided questionnaires which was later edited, coded, tabled and made ready to be presented and interpreted.

Chapter four then discussed the interpretation and presentation of the findings obtained from the field and thus data collected for the study were analysed by the researcher using frequency counts, mean scores and standard deviation. Data presentation was done by use of tables for ease of understanding and interpretation.

Chapter five provided a summary, conclusion and recommendations of the main findings where the analysis revealed that internal audit control and procedures have a positive effect on financial performance of commercial banks in Uganda. The study recommended that management in commercial banks in Uganda should adopt effective

internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance financial performance of the banks.

## **ACKNOWLEDGEMENT**

I would like to extend my appreciation to the Almighty God for giving me life, knowledge and always being there for me throughout my studies.

I am heartily thankful to my supervisor Dr. Mugisha Henry whose encouragement, guidance and support from the initial to the final level enabled me to develop an understanding of the subject. His support has enabled me to produce this work.

I am greatly indebted to my ever loving and supportive family. My deep and warmest appreciation extends to my beloved parents for their financial support and moral encouragement. Also my paramount appreciation goes to my siblings for their financial support and encouragement in all my endeavors in this academic journey.

May the Almighty God bless you.

## TABLE OF CONTENTS

### Table of Contents

DECLARATION.....	i
APPROVAL.....	ii
ACKNOWLEDGEMENT.....	iii
TABLE OF CONTENTS.....	iv
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Introduction.....	1
1.6 Scope of the study.....	5
1.6.2 Subject scope.....	6
CHAPTER TWO: LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Empirical literature.....	8
2.2.1 Control environment.....	8
2.4 Critical Review of the Literature.....	11
CHAPTER THREE.....	12
RESEARCH METHODOLOGY.....	12
3.1 Introduction.....	12
3.2 Research Design.....	12

3.4 Sample size.....	13
3.5 Sampling procedures.....	13
3.6.1 Interviews.....	15
3.7.1 Interview guide.....	16
3.9.2 Coding.....	17
3.10.2 Quantitative Data Analysis.....	18
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS.....	19
4.1 Introduction.....	19
4.2 Data Presentation.....	19
4.2.1 Demographic Information.....	20
Table 1: Gender of the Respondent.....	20
Table 2: Age Distribution.....	20
Table 6: The relationship between control environment and Financial Performance.....	23
4.2.3 Risk assessment on financial performance of organisations.....	24
Table 7: Risk assessment on financial performance.....	24
Table 9: Effects of Internal Audit Standards on Financial Performance of a Commercial Bank.....	27
4.2.3.2 Relationship between internal audit and financial performance.....	28
Table 10: Extent to which Internal Audit relates to Financial Performance of commercial banks.....	28
Table 11: The relationship between monitoring and financial performance of commercial banks.....	29
CHAPTER FIVE.....	32
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	32
5.1 Introduction.....	32

5.2 Summary	32
5.3 Conclusion.....	35
5.4 Recommendation for Policy	36
5.5 Limitations of the Study.....	37
5.6 Suggestions for further studies...	38

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

The study aims at establishing the effects of internal audit and financial performance of commercial banks, focusing on Stanbic Bank, Mukono Branch as a case study. This chapter presents the background to the study, problem statement, objectives of the study and significance of the study.

#### 1.2 Background to the Study

World-over, Bhatia (2014) suggests that internal auditing is as old as accounting. The term audit is derived from the Latin term “audire” which means to hear. During those days, an auditor used to listen to the accounts read over by an accountant to check them. Auditing then evolved rapidly after the industrial revolution in the eighteenth century following the growth of the joint stock companies that made management and ownership separate.

The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were the employees. Shekhar (2010) also argued that the original objective of auditing was to detect and prevent errors and fraud but this has shifted and auditing was then to ascertain whether the accounts were true and fair rather than detection of errors and fraud. In India, the Companies Act (1913) made audit of company accounts compulsory. With the increase in the size of the companies and the volume of transactions the main objective of audit shifted to ascertaining whether the accounts were true and fair rather than true and correct.

Hence the emphasis was not on arithmetical accuracy but on a fair representation of financial efforts. The Companies Act (1913) for the first time prescribed the qualification of auditors. Developed countries have emphasised audit as the examination of the

books, accounts and vouchers of a business. This focuses on auditors satisfying themselves that the balance sheet is properly drawn up, so as to give a true and fair state of affairs of the business and whether the statements of comprehensive income give a true and fair view of profit or loss for the financial period.

In developing countries, according to Fadzil et al., (2015), most companies and financial institutions in Sub-Saharan Africa have emphasised internal auditing as a management tool in ensuring transparency in conduct of business. It serves as an important link in the business and financial reporting processes of corporations and non -profit organisations.

This study intends to find out how internal auditing is important when determining the financial performance of a business entity. Most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. Besides, Beyanga (2011) argued that an effective internal audit service can help reduce overhead, identify ways to improve efficiency and maximise exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance of a business entity. He also stated that internal audit is an “Invaluable tool of management for improving performance.” Fadzilet al., (2015) also noted that internal auditors help run a company more efficiently and effectively to increase shareholders value.”

In East Africa, Hermanson & Rittenberg (2015) conducted a study in Kenya .they argued that the existence of an effective internal audit function is associated with superior organisational performance. Internal auditors play a key role in monitoring a business’ risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organisational efficiency and effectiveness through constructive criticism. Internal auditing has four main components which include; verification of written records, analysis of policy, evaluation of the logic and completeness of procedures.

Internal auditing services and staffing in commercial banks in Uganda is to assure they are appropriate for the organisation’s policies; and reporting recommendations for improvements to management (Beyanga, 2011). The subject is worthy of attention

because internal auditors are important, even crucial in an economy that relies upon independently produced information. For most of its history, internal audit has served as a simple administrative procedure consisting mainly of checking documents, counting assets, and reporting to the Board of Directors, Management or External Auditors. In recent times, however, a combination of different forces has led to a quiet revolution of the profession (Muga, 2019). Organisations have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organisations now demand great competency and professionalism from internal audit, and scarce resources must be deployed more efficiently to minimise and manage risks. Technological advancement makes it possible to track and analyse data with continually increasing speed thus making it essential for organisations to be well advised by the internal audit department. Internal audit varies from one organisation to another, and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organisational changes (Higenyi, 2020).

In many bank institutions staff is poorly paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement. The existence of an effective internal audit function is associated with superior organisational performance. At the empirical level, a survey conducted by Stanbic Bank, Uganda (2017) found that the internal audit function in organisations where it exists contributes substantially to performance improvement and assists in identifying profit evidence in corporate disasters; particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organisation from malpractices and irregularities thus enabling the organisation to achieve its objectives of ensuring high level of productivity and profit. In order to bridge that gap, this research seeks to study the role of internal auditing on the financial performance of Stanbic Bank, Mukono Branch.

**Financial Performance:** There are many aspects of the performance of commercial banks that can be analysed. Muga (2012) stated that the importance of bank profitability can be appraised at the micro 4 and macro levels of the economy. At the

micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence the basic aim of every bank management is to maximise profit, as an essential requirement for conducting business. At the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Bank profits provide an important source of equity especially if reinvested into the business. This should lead to safe banks, and as such high profits could promote financial stability. Schiuma (2003) mentioned accounting- based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI). These are widely used to assess the performance of firms, including commercial banks. Bank regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure as inputs in statistical models to predict bank failures and mergers and for a variety of other purposes where a measure of profitability is desired. The main purpose of this study was to examine if internal audits can actually enhance banks' financial performance.

### **1.3 Problem Statement**

Ideally, internal Auditing is a catalyst for improving a business' governance, risk management and management controls providing insight and recommendations based on analysis and assessment of data and business processes (Muga, 2019). With commitment to integrity and accountability, internal auditing provides value governing bodies and senior management as an objective source of independent advice. Recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes. First, Internal Auditing skills have become crucial in untangling the complicated accounting manoeuvres that have unclear financial statements (Muga, 2019). Secondly, public demand for change and subsequent regulatory action has transformed corporate governance. Increasingly, banking officers and directors are under ethical and legal scrutiny.

Both trends have the common goal of responsibly addressing investors' concerns about the financial reporting system. However, there has been laxity in implementation of

internal audit findings and recommendations due to lack of understanding of assessing skills and methods, identifying corrective actions and losing them out and poor management decisions making. And Stanbic bank, Mukono branch has not been without crisis, the shortcomings of Uganda's banking sector prior to the banking crisis of the late 1980s, and then the effect of the measures subsequently introduced by Uganda's Central Bank (Higenyi, 2020). Stanbic Bank has been experiencing a fraudulent system failure where the Bank was unknowingly sending unspecified sums of money to different mobile money users through their bank to wallet service. In September 2020, a Director at Mcdowell Ltd wrote to the Special Investigations Division, Criminal Investigations Directorate, calling for a special investigation alleging that top employees of Stanbic Bank sold a mortgaged property to themselves even after the client paid the loan. This laxity forced the researcher to carry out the research on the internal audit functions in this branch, the role it plays in the organisation, internal audit and asset management and how they affect the financial performance.

#### **1.4 Objectives of the Study**

To identify the potential risks and threats to the organisation. The study achieved the following objectives:

- i. To evaluate the relationship between control environment and financial performance of commercial banks
- ii. To examine the risk assessment measures on the financial performance of Stanbic bank Mukono branch.

To examine the monitoring procedures and financial performance of Stanbic bank Mukono branch.

#### **1.5 Research questions**

To achieve the above desired objectives the following questions were asked:

- a) What is the relationship between control environment and financial performance of commercial banks.
- b) What are the risk assessment measures used by the financial performance of commercial banks.
- c) What are the monitoring procedures used in the performance of commercial banks.

## **1.6 Scope of the study**

The scope shows where the research study was carried out, what the research was about and the period within which the research was carried out.

### **1.6.1 Area scope**

The study was carried out at Stanbic bank Mukono branch, the location was considered because it helped the researcher easily collect data due to its closeness to the university.

### **1.6.2 Subject scope**

The study was limited to the effect of internal audit as an independent variable, financial performance of commercial banks as the dependent variable and how the two variables relate majorly focusing on Stanbic bank, Mukono branch.

### **1.6.3 Time scope**

The study was carried out in a period of five months, which is from May to September 2024.

## **1.7 Significance of the Study**

Research provides the basis for nearly all private and government policies in an economic system (Kothari, 2014). The research would therefore be helpful to different stakeholders both within and outside the bank as explained below;

The findings of the study will support the commercial bank (Stanbic) to put in place strategies for their day to day management of safeguarding assets, prevention and detection of errors and irregularities. The study shall also enhance the existing knowledge of the bank employers concerning internal controls and its effectiveness.

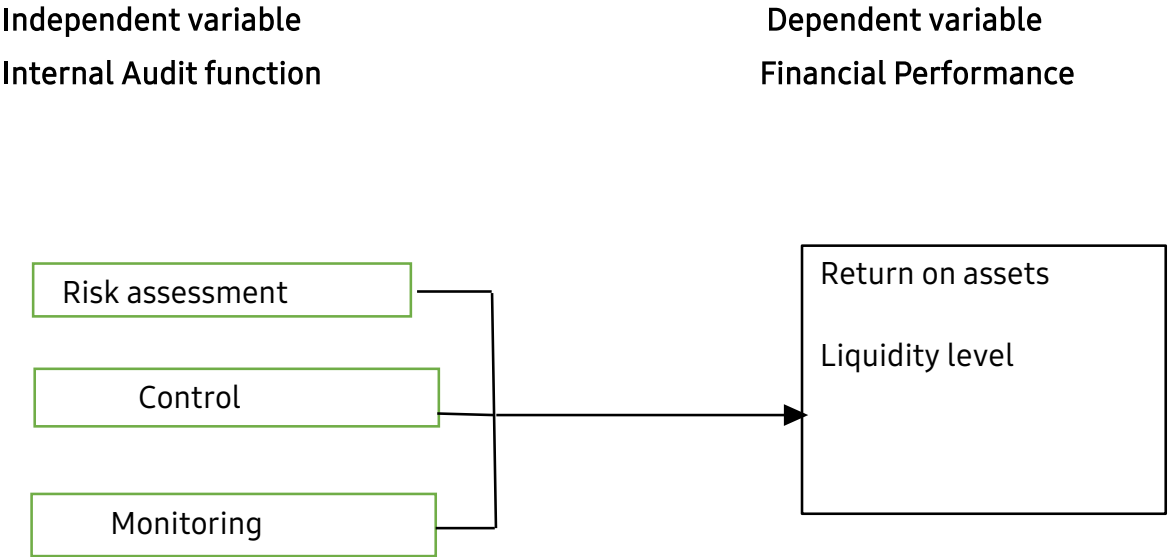
To the researcher, he was intended to define the relationship between internal audit and financial performance of commercial banks. A comprehensive knowledge of the system of internal audit forms a foundation on which the auditor's report on true and

fair view accounts is based and thus the study is of immense value to the practising students and reliance of financial statements.

To the future researcher, this study is of interest to academicians and future researchers who will undertake other studies related to this. The study also helps them come up with better proposals on internal audit and their effects on financial performance of commercial banks.

### 1.8 Conceptual Framework

The researcher presented a conceptual framework showing the relationship between internal auditing and the financial performance of commercial banks as shown below;



Source: Researcher, 2024

According to the above demonstration, internal auditing through monitoring and control environment, risk assessment and internal environment and control activities lead to improved financial performance in commercial banks indicated by improved profitability, return on investments, liquidity levels among others.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter is subdivided into conceptual review, empirical review, and critical review as detailed below.

### **2.2 Empirical literature.**

#### **2.2.1 Control environment**

##### **Internal Audit**

Rossell (2018) and Kotez (2010) adds that internal audit is a process of monitoring the whole systems of financial control establishment by management in order to carry on business of the organisation in an efficient way, to ensure compliance with the organisation laws, regulations and policies concerning completeness and accuracy. "Internal auditing of businesses or companies is under company audits. These are audits that are carried out because the law requires them." The International Auditing and Assurance Standards Board (IAASB) (2013) defines an internal audit function as a

function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. In this case, the researcher looked at the internal audit function as a function of an organisation established with the aim of reviewing the effectiveness and efficiency of the activities of the organisation, ensuring compliance with established regulations, evaluation of risk management and internal controls of an organisation.

### **2.2.2 Risk assessment**

Financial Performance was variously defined and in this study, was confirmed to how financial resources are controlled and utilised through efficient budget management and accountability to achieve organisational goals. Performance is how competent, efficient, integrity and honesty the organisational members are at utilising the existing resources and procedures to carry out tasks, duties and responsibilities and operations to achieve organisational goals. Evaluating the internal audit function was to examine how well it could detect errors within an organisation as well as fraud that have received greater emphasis (Bierstaker & Pacini, 2006).

Performance is a measure of the results achieved. Performance efficiency is the ratio between effort expended and results achieved. The difference between current performance and the theoretical performance limit is the performance improvement zone. Performance assumes an actor of some kind but the actor could be an individual person or a group of people acting in concert. The performance platform is the structure or device used in the performance act (Malcom, S. 2005).

According to Likert (2003) there are two main ways to improve performance: improving the measured attribute by using the performance platform more effectively, or by improving the measured attribute by modifying the performance platform, which in turn allows a given level of use to be more effective in producing a desired output. Performance can be measured by obtaining the magnitude of a quantity, such as length or mass, relative

According to Khisa (2011), financial performance refers to the degree to which financial objectives are being or have been accomplished. It is also the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a

firm's overall health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial analysis involves the use of financial statements; a financial statement is an organised collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement.

According to Arens (2005), there are many aspects of the performance of commercial banks that were analysed. The importance of bank profitability was appraised at the micro; most internal audit professionals argue that an effective internal audit function correlates with improved financial performance. An effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximise exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the financial performance of an organisation (Arens, 2005). According to Al-Twajry & Gwilliam (2004), internal audit is an invaluable tool of management for improving performance. Internal auditors help run a company more efficiently and effectively to increase shareholders value. Finally Herman son and the existence of an effective internal audit function are associated with superior organisational performance. The internal audit function in organisations where it exists, contributes substantially to performance improvement and assists in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organisation from malpractices and irregularities thus enabling the organisation to achieve its objectives of ensuring high level of productivity and profit.

### **2.2.3 Monitoring**

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organisation. It involves investigating and appraising internal controls and the efficiency with which the various units of the organisation are performing their assigned functions. An Internal Auditor is normally interested in

determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory and other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Gupta (2001) on the other hand asserts that 'Internal audit is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation'. The objective of internal audit is to assist members of the organisation in the effective discharge of their responsibilities. According to Gupta "the scope of internal audit is determined by management". This may however, impair the internal auditor's objectivity and hamper his independence, it is quite hard to report negatively on someone who determines the scope of your work. Although at a seminar organised by the Institute of Certified Public Accountants of Uganda (ICPAU), Sebbowa, 2009 in his presentation "The role of Internal Audit function in Organisations", states that "Independence is established by organisational and reporting structure" and that "Objectivity is achieved by an appropriate mindset".

According to Bett (2014) the relationship between effectiveness of internal audit and financial performance of companies listed in the Nairobi Securities Exchange, professional competency is positively related to financial performance of companies listed in NSE. The study further concluded that effective internal audit function is positively related to financial performance. The researcher recommended that firms should engage skilled and competent professional internal auditors to strengthen controls of internal audit and mitigate fraud. With efficient internal controls, issues like fraudulent cases, cash embezzlement as well as mismanagement of funds will be controlled, thus improving the financial performance of the companies.

#### **2.4 Critical Review of the Literature**

In this section, the researcher assorted some findings from previous researchers that show the relationships existing between internal audits and banking institutions performance. According to the Basel Committee report (2002) each bank should have a permanent internal audit function in order to fulfil its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to

the nature of its operations. These measures may include providing the appropriate resources and staffing to internal will help the institution to achieve its goals and objectives efficiently and effectively. The survey conducted by KPMG (1999) found that the internal audit function in organisations where it exists, contributes substantially to performance improvement and assists in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organisation from malpractices and irregularities thus enabling the organisation to achieve its objectives of ensuring high level of productivity and profit. Hodgson (1997) said that internal audit operations and recommendations do not only have short-term effect on the running of an organisation but are the backbone of an organisation and it dictates the prosperity or the downfall of the particular organisation. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyse the impact of internal audit on the performance of commercial banks in Rwanda.

## **2.5 Summary of Literature Review**

Only a few academic studies have examined the effectiveness of internal audit, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the effect of internal auditing on commercial banks, Bhatia (2014) assigned bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. However, the reviews manifested conflicting effects of internal auditing on financial performance of commercial banks (Khisra, 2011).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

“This chapter covers the methodology the researcher used in the field to collect data.” The chapter discussed the research design, population of study, sample size, sampling techniques and procedures, data collection methods and procedures, data analysis, validity and reliability and measurement of variables and ethical issues”.

#### 3.2 Research Design

Creswell (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Further Dooley (2007) notes that a research design is the structure of the research; it is the glue that holds all the elements in a research project together. The study adopted a descriptive cross-sectional research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs were found to be accurate in descriptive studies and generalisations of results (Ngechu, 2004). The study involved the evaluating of the effect of Internal Audit in the financial performance of commercial banks, a case study of Stanbic bank Uganda.

The study also used both quantitative and qualitative research design. The researcher selected qualitative design because the study required an in depth understanding of a particular group of people (Merriam, 1998).

#### 3.3 Population of the study

According to Ngechu (2004), a study population is a well-defined or specified set of people, groups of things, households, firms, services, elements or events which are being investigated. Thus the population should fit a certain specification, which the researcher was studying and the population should be homogenous. The target population for this study was the employees in the bank in different departments.

### 3.4 Sample size

Sampling is selecting some of the elements in a population from which a researcher may draw conclusions about the whole population. A population group is the subject on which measurements are obtained; it is the entity of study (Cooper & Schindler, 2010). And for the purpose of this study, the unit of study was a commercial bank from Uganda's banking sector, a case in point Stanbic bank, Mukono branch.

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms were selected in order to make a sample.

The sample size consisted of managers, supervisors and officers from different departments. This was purposely considered because of their knowledge regarding the area of the study and also they were able to express specific views on the effect of internal audit and performance of Stanbic bank. The study selected 20 members from a targeted population of 60 members. Members were selected in terms of their rankings as follows: 1 branch manager, 1 supervisor, 3 corporate customers, 10 cashiers and 5 cleaners. The Slovene's formula was used to come up with an appropriate sample size used in the study. Slovene's Formula states that, given a population, the minimum sample size is given by:

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

where

n = the sample size

N = total population of respondents, that is 43

a = the level of significance, that is 0.05

$$n = \frac{60}{1 + 60(0.05)^2}$$

$$n = \frac{60}{1 + 60 * 0.0025}$$

$$n = \frac{60}{0.011}$$

$$n = 545$$

### 3.5 Sampling procedures

Sampling method is defined as a method used in order to obtain the required sample from the study population. During the process of data collection, Probability sampling

technique was used in order to get the sample study size. Stuart (1984) defines probability sampling as the kind of sampling in which “every element in the population has a non-zero chance of being selected. Each individual in a sample frame drawn from the population was selected by chance and at random. When probability sampling is used, according to Aryet al., (2002), “financial statistics enable researchers to estimate the extent to which the findings based on the sample are likely to differ from what they would have found by studying the whole population”.

In this way, stratified probability sampling technique was employed by using the following formulae;

$P = F/N * n$ . Where; F = Number in the category

N = Total population

P = Number of respondents in the category obtained from the group

n = Total number of the respondents

Stratified random sampling is a process in which a certain sub group, or strata, is selected for the sample in the same proportion as they exist in the population. In stratified sampling, the researcher first identifies the strata of interest and then randomly draws a specified number of subjects from each stratum in the population. Popham (1993) warns, however, not to simply subdivide a population into age, sex and socioeconomic subgroups unless the researcher believes these dimensions are relevant to the things being measured.

### **3.6 Data Collection Instruments**

While deciding about the method of data collection to be used for the study, the researcher should keep in mind two types of data, primary and secondary data. Primary data are those which are collected new and for the first time, and thus happened to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have been passed through the statistical process (Kothari, 2004). “These are the methodology or means that the study used in collecting data. The study thus incorporated the use of various methods in the process of data collection in the bid to come up with sound, concrete and credible research findings. The researcher therefore considered the use of interviews and questionnaires in the process of collecting primary data.

### **3.6.1 Interviews**

“Interview is the most effective data collection method (Ferreira et al, 1988).”  
“Interviews were used to correct the data collected from questionnaires, and add more information which may not have been captured in the questionnaires and documentary review.” Interviews allow on spot explanations, adjustments and variation can be introduced during data collection process and through respondent’s incidental comments, use of the facial and body expressions, tone of voice, gestures, feelings and attitudes (Amin, 2005).”

A structured interview guide was used when collecting data on lower level employees from the banking department. An interview guide was designed and it contained both closed and open ended questions. Also, questions were designed for the respondents relating to the topic under study as they assisted in the collection of adequate data from the respondents.

### **3.6.2 Questionnaire Survey**

According to Robson (1993), a questionnaire is commonly applied to research, designed to collect data from a specific population or a sample from that population. Questionnaires are commonly used as research instruments because of the distinct advantages they yield (Leary, 1995). Therefore, a descriptive research methodology was used to design a questionnaire for collecting the required data.

The questionnaires were administered from office to office since all respondents were confined in one location, apart from the opinion leaders. The questionnaires were structured in both closed and open ended questions. Questionnaires were used to avoid subjectivity that results from close contact between the researcher and the respondent. Also questionnaires were preferred because they are used to collect much data over a shorter time period at lesser costs. Questionnaires were distributed to all the sample size respondents in order to get a wider range of respondent coverage.

## **3.7 Data Collection Instruments**

The researcher used appropriate instruments for each method of data collection as explained below;

### **3.7.1 Interview guide**

The interview guide is an oral questionnaire from where the researcher gathers data through direct verbal interactions with the respondents. The oral questions were unstructured. The researcher used the interview guide because it gives room for probing and making clarifications on the questionnaires.

### **3.7.2 Questionnaires**

Questionnaires were self-administered and guided. The study embraced questionnaires because it gathers much data within a shorter period of time and data can easily be analysed numerically, less time consuming and gives the respondent freedom to provide answers comfortably, Russell (2011).

## **3.9 Data Collection Procedure**

According to Ngechu (2004), there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Donald (2006) notes that there are two major sources of data used by respondents' primary and secondary data. Data collection began with a proposal followed by a letter introducing the researcher to the case study from the department and data collection that covered a period of about one month. The researcher administered a survey questionnaire to each member of the target population. The questionnaires were carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance the validity and accuracy of data that was collected for the study.

### **3.9.1 Editing**

Editing is the process of going through the questionnaire to ensure that the 'skip patterns' were followed and required questions were filled out. Editing involves the inspection and if necessary, connections of each questionnaire or observation form; the

basic purpose of editing is to impose some minimum quality standards on the raw data (Churchill, 2003).

### **3.9.2 Coding**

Coding is the procedure by which data are categorised. Through coding, the raw data are transformed into symbols, usually numerals that may be tabulated and counted. The transformation is not automatic; however, it involves judgement on the part of coder (Babbie, 2008). Similar responses were grouped according to their different categories. This helped the researcher to know for instance the percentage of responses on whether internal audit facilitates the growth of commercial banks.

### **3.9.3 Tabulation**

Tabulation refers to the part of the technical process of statistical analysis of data that involves counting to determine the number of cases that fall into various categories. Thus after eliminating errors, codes were assigned to each answer. This stage led to the construction of statistical tables showing frequency distribution of answers to questions addressed to respondents. The statistical tables were used to compare the number of occurrences of each answer to questions asked. Up to this level, it was through mathematical and statistical tables that the number of occurrence of each answer in relation to the asked questions were converted into percentages to make it clear. Each table was accompanied by explanations about the nature of the relationship between the variables that were indicated in tables.

## **3.10 Data Analysis**

Data analysis involved Presentation and Interpretation. The researcher analysed the data collected using two methods:

### **3.10.1 Qualitative Data Analysis**

Qualitative data analysis involves analysing and interpreting narrative data or content analysis to bring order and understanding, which requires creativity, discipline and a systematic approach. There is no single or best way to analyse qualitative data, for you

can adapt to your own extension evaluations. The common technique for qualitative data analysis to be used was limited to direct interaction with the respondent and the responses recorded.

### **3.10.2 Quantitative Data Analysis**

Quantitative data analysis involved transcribing, sorting, and classifying responses. Detailed figures were scrutinised, analysed and correlated where necessary. Data was coded, edited and entered into SPSS (Statistical Package for Social Scientists) data editor. Data was also analysed using version 19 of 27 SPSS.” “Descriptive statistics such as measures of central tendency and relationship were used to describe and summarise the data (Newman, 2005), cross tabulation in Microsoft Excel was also used to establish the strength of the relationship between the variables.

### **3.11 Measurement of variables**

The researcher used the nominal and ordinal scale in measuring the data. Nominal scale was used for capturing gender, age, occupation, and ordinal scale was used in ranking the data. The researcher used the Likert scale rate system to rate the opinions of the respondents because it measures people’s attitudes, beliefs, emotions, feelings and other Psychological constructs (Spector, et al, 2012). “A five point Likert scale was represented as follows: - 5- Strongly Agree; 4 – Agree; 3- Neutral; 2- Disagree and 1- Strongly Disagree.”

### **3.12 Ethical Issues**

The researcher sought permission from Uganda Christian University to conduct the study, where a letter of introduction was provided to him by the Institution. The researcher then introduced himself, explained to the respondents the objectives of the study, explained why particular respondents were selected, the benefits, discomforts and harms of the study, and requested to also be asked questions as well and also obtained informed consent from all the respondents to the study.

The researcher designed the questions in such a way that they did not violate the rights of the informants and he assured the respondents of confidentiality of the provided information.

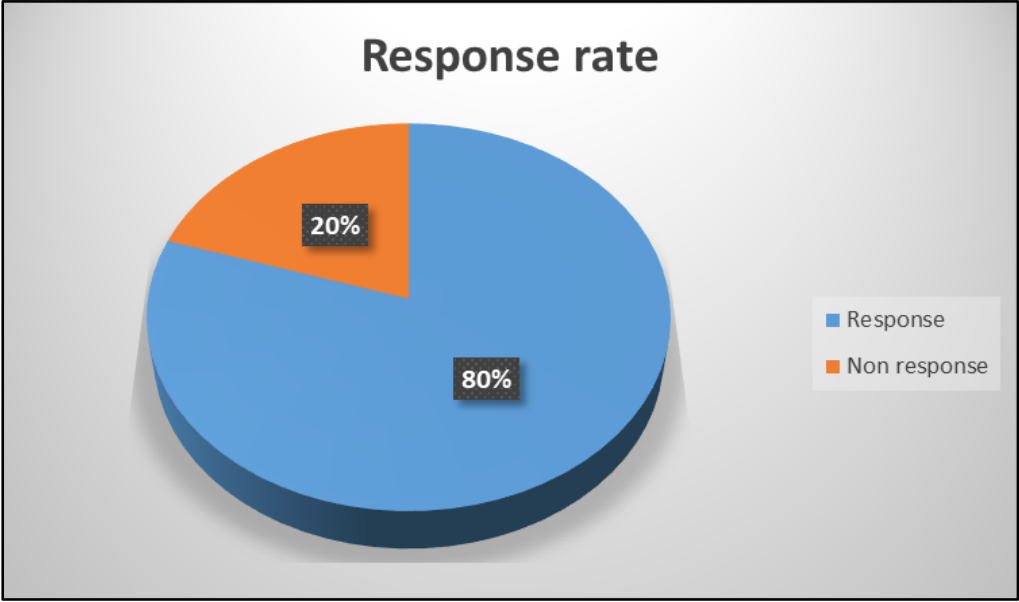
## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS**

### **4.1 Introduction**

This chapter discusses the interpretation and presentation of the findings obtained from the field. Descriptive and inferential statistics have been used to discuss the findings of the study as shown below;

#### **4.1.1 Response rate**

Questionnaires were prepared and sent to 25 respondents. 20 questionnaires were filled and returned representing 80% response rate. This response rate was sufficient for information analysis and fits in with Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is viewed as satisfactory.



**Figure 4.1.1 Response rate**

**4.2 Data Presentation**

The data was gathered using questionnaires to the commercial bank. The findings are presented in percentages and frequency distributions, mean and standard deviations. Inferential statistics such as correlation and regression analysis was conducted to establish the relationship of the study variables. The following subsections further discuss the general information of the respondents and how they responded to the main questionnaire.

**4.2.1 Demographic Information**

**Table 1: Gender of the Respondent**

Gender	Frequency	Percentage
Male	15	75

Gender	Frequency	Percentage
Female	5	25
Total	20	100

Source: Primary Data, 2024

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 75 % were males whereas 25% of the respondent were females, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

**Table 2: Age Distribution**

Age bracket	Frequency	Percentage
25 to 34 years	9	45
35 to 44 years	6	30
45 to 50 years	3	15
51 years and above	2	10
Total	20	100

Source: Primary Data, 2024

The study requested the respondent to indicate their age category, from the findings, 45% of the respondents were aged between 25 to 34 years, 30 % of the of the respondent indicated they were aged between 35 to 44 years, 15% of the respondents indicated they were aged between 45 to 50 years, whereas 10 % of the respondents indicated that they were aged above 51 years. This is an indication that respondents were well

distributed in terms of their age.

**Table 3: Level of Education**

Level of Education	Frequency	Percentage
Post graduate	1	5
Masters	3	15
Degree	12	60
Diploma	4	20
Total	20	100

Source: Primary Data, 2023

The study requested the respondent to indicate their highest level of education. From the findings It was established that 60% of the respondents indicated their highest level as a degree, 20% of the respondents indicated their highest level as a college diploma, 15% of the respondents indicated their highest level of education as masters, whereas 5 % of the respondents indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education.

**Table 4: Period of Service**

Years of service	Frequency	Percentage
Less than 2 years	2	10
2 to 5 years	6	30
6 to 10 years	7	35
More than 10	5	25
Total	20	100

Source: Primary Data, 2024

The study requested respondents to indicate the number of years they had served for. From the findings the study established that 35 % of the respondents had worked for a

period of raging 6 to 10 years 30% of the respondent indicated that they had worked for a period raging between 2 to 5 years 25% of the respondents had served for more than 10 years, and finally 10 % of the respondents indicated to had worked for a period of less than 2 years, this implies that majority of the respondents had served for a considerable period which indicates that most of the respondents had vast knowledge which could be relied upon by this study.

**4.2.2 Relationship between control environment**

**Table 5: Relationship between control environment and financial performance of commercial banks**

	Frequency	Percentage
Very great extent	4	20
Great extent	14	70
Moderate extent	2	10
<b>Total</b>	<b>20</b>	<b>100</b>

**Source: Primary Data, 2024**

The study sought to establish the relationship between control environment and financial performance of commercial banks, a case of Stanbic bank Mukono branch. From the findings 70% indicated to a great extent, 20% of the respondents indicated to a very great extent whereas 10% of the respondents indicated to a moderate extent. This implies that internal audit plays a great role in the financial performance of commercial banks.

**Table 6: The relationship between control environment and Financial Performance**

Statement	S A (5)	Agre e (4)	Neutral (3)	Disagre e (2)	Strongly Disagree (1)	Mean	SD
The educational, professional and technical competence of the internal auditor affects the quality audit department	8	9	2	1	0	1.40	0.21
In commercial banks frauds are identified by the internal audit function	12	4	3	1	0	1.05	0.24
Measures that can enhance the efficacy of auditors are important for effective fraud detection	11	8	0	1	0	1.00	0.26
Conscientiousness correlates with task performance just as cognitive ability is important for effective fraud detection.	10	5	2	3	0	1.40	0.19
The auditors in my organisation are qualified to undertake audit functions.	6	10	4	0	0	1.60	0.21

Control audits in the organisation have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact.	11	4	5	0	0	1.15	0.23
--	----	---	---	---	---	------	------

**Source: Primary Data, 2024**

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to the control environment and performance of Stanbic bank, from the findings the study established that majority of the respondents strongly agreed that measures that can enhance the efficacy of auditors are important for effective fraud detection as shown by mean of 1.00, in commercial banks frauds are identified by the internal audit function as shown by mean of 1.05, the educational, professional and technical competence of the internal auditor affects the quality audit department performance as shown by a mean of 1.40 in each case, finally others agreed that the auditors in the organisation are qualified to undertake audit function as shown by a mean of 1.60.

#### 4.2.3 Risk assessment on financial performance of organisations

The second objective was to determine the risk assessment measures on the financial performance of Stanbic bank. The researcher presented the information collected as below.

**Table 7: Risk assessment on financial performance**

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)	Mean	SD
-----------	-------------------	-----------	-------------	--------------	----------------------	------	----

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)	Mean	SD
Internal auditors reporting to the senior management affect their quality of work and their contribution to the organisation.	10	4	5	0	0	1.15	0.23
Overdependence on management for allocation of resources to the internal audit function affects the audit work.	7	10	3	0	0	1.45	0.22
Management expectations of the duties of the internal audit affects their objectivity hence their judgements could be biased.	5	10	2	3	0	1.90	0.19
Audit reports that are comprehensive, clearly conveyed, reasonable and implementation of the recommendations leads to control improvements and improvements in efficiency.	5	14	1	0	0	1.55	0.30
Internal audit reports tracking are cost effective and add value to the organisation.	5	13	2	0	0	1.60	0.27
Organisational independence of the internal audit function is crucial in the effectiveness of the internal audit function.	8	11	1	1	1	1.70	0.24

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)	Mean	SD
The internal audit operations are positioned strategically in a bid to obtain cooperation from both management and staff within the bank.	6	13	1	0	0	1.45	0.26
Audit reports are timely given and recommendations are implemented to arrest control lapses.	8	10	2	0	0	1.30	0.25
The CEO and CFO of the bank have a say on the internal audit budget, recruitment, termination and the remuneration of the internal auditors.	6	14	0	0	0	1.40	0.31

Source: Primary Data, 2024

The study sought to determine the level at which respondents agreed with the statements

that relating to internal auditing and financial performance of commercial banks in Uganda, from the findings the study established that majority of the respondents strongly agreed that internal audits in the organisation have features built into them to ensure that

fraudulent truncations are flagged or made difficult to transact as shown by mean of 1.15 ,that intentional errors are concentrated in relatively few audits and these are fairly predictable by the industry as shown by mean of 1.45, others agreed that cash receipts bear fairly strong controls as shown by mean of 1.55, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital as shown by mean of 1.60, the greater the degree of competition, the greater would be the need to control costs as shown by mean of 1.70 and that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry as

shown by a mean of 1.90.

#### 4.2.3.1 Internal audit Standards

**Table 8: Extent to Which Internal Audit Standards Affect Financial Performance**

	Frequency	Percentage
Very great extent	7	35
Great extent	10	50
Moderate extent	3	15
Total	20	100

The study sought to establish the extent to which internal audit standards affect the financial performance of commercial banks in Uganda. From the findings 50% indicated a great extent, 35% of the respondents indicated to a very great extent whereas 15% of the respondents indicated to a moderate extent. This implies that internal audits standard affect the performance of commercial banks in Uganda to a great extent.

**Table 9: Effects of Internal Audit Standards on Financial Performance of a Commercial Bank**

Statement	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly disagree(1)	Mean	SD

Performing audit work according to internal auditing standards significantly influences the effectiveness of auditing	7	10	3	0	0	1.45	0.22
Complying with professional standards is the most important contributor to IA's added value	8	11	1	0	0	1.25	1.26
Standards for audits and audit-related services influence the performance of Stanbic banks	6	13	1	0	0	1.45	1.28
Formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports.	8	10	2	0	0	1.30	1.23
Auditors to carry out their role objectively and in compliance with accepted criteria for professional practice.	6	14	0	0	0	1.40	1.31
Internal audit evaluates and contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking sector.	5	15	0	0	0	1.49	0.33

The study sought to determine the level at which respondents agreed with the

statements. Regarding internal controls and financial performance of Stanbic bank from the findings, the study established that the majority of the respondents strongly agreed that complying with professional standards is the most important contributor to auditing. Formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports as shown by mean of 1.30, auditors to carry out, their role objectively and in compliance with accepted criteria for professional practice as shown by mean of 1.40, Standards for audits and audit-related services influence the financial performance of commercial banks, performing auditing work according to internal auditing standards contributes significantly and influences the effectiveness of auditing as shown by mean of 1.45 in each case, and finally that internal audit evaluates and contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking as shown by a mean of 1.49.

**4.2.3.2 Relationship between internal audit and financial performance**

**Table 10: Extent to which Internal Audit relates to Financial Performance of commercial banks.**

	Frequency	Percentage
Very great extent	6	30
Great extent	11	55
Moderate extent	3	15
Total	20	100

Source: Primary Data, 2024

The study sought to establish the extent to which internal controls affect financial performance of Stanbic bank. From the findings 55% indicated o a great extent, 30% of the respondents indicated to a very great extent whereas 15% of the respondents indicated to a moderate extent. This implies that there is a relationship between internal audit and financial performance of Stanbic bank to a great extent.

**Table 11: The relationship between monitoring and financial performance of commercial banks**

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)	Mean	SD
Independence is the essence of auditing.	6	12	2	0	0	1.50	0.25
An internal auditor must be independent of both the personnel and operational activities of an organisation.	6	10	4	0	0	1.60	0.21
The integrity of the auditor's opinions, conclusions and recommendations would be suspect.	6	10	4	0	0	1.60	0.21
Independence is necessary for the effective Achievement of the function and objective of internal audit.	4	10	5	1	0	1.95	0.20

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)	Mean	SD
Internal audit in banking organisations acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely.	7	12	1	0	0	1.35	0.27
The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes.	8	10	2	0	0	1.30	0.23
Internal auditors may not have a conflict of interests with the bank.	5	10	2	3	0	1.90	0.19

Statement	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)	Mean	SD
Every bank should have formalised principles of internal audit providing for its position and powers in the framework of the bank.	6	12	2	0	0	1.50	0.25

**Source: Primary Data, 2024**

The study sought to determine the level at which respondents agreed or disagreed with the above statements relating to relationship between monitoring and financial performance of Stanbic bank, from the findings the study established that majority of the respondents' strongly agreed that monitoring greatly correlates with the financial performance of a commercial bank. The monitoring department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, as shown by a mean of 1.30 in each case, others agreed that Every bank should have formalised principles of internal audit providing for its position and powers in the framework of the bank, Independence is the essence of auditing as shown by a mean of 1.50 in each case. The integrity of the auditor's opinions, conclusions and recommendations would be suspect as shown by a mean of 1.60, Monitoring may not have a conflict of interests with the bank as shown by mean of 1.90 and finally that independence is necessary for the effective achievement of the function and objective of monitoring in as shown by mean of 1.95.

#### **4.3 The risk assessment technique on the financial performance of the bank**

Internal audit in fact is an activity which uses a disciplined approach to evaluate risk management, control and governance processes. In a way internal audit ensures accomplishment of corporate goals in an effective and efficient manner and as well

It looks at helping an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve overall effectiveness and efficiency of a company's operations.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter provides a summary, conclusion and recommendations of the main findings on the effect of internal audit function and financial performance of commercial banks.

#### 5.2 Summary

The importance of IA is demonstrated in the growing demand for this service in all organisations and in the rapid growth of its profession. However researchers have paid little attention to this function and the effect it has on financial performance of organisations. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit department is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality.

The study sought to establish the effect of internal audit function and financial performance of commercial banks. The research design employed in this study was descriptive design. The population of the study consisted of employees in Stanbic bank Mukono branch being the case study chosen. The study was a census survey. The source of data used was both primary and secondary data. The main instrument for data collection was a semi-structured questionnaire. Data was analysed through the use of descriptive statistics and multiple linear regression analysis. The multiple linear regression models were used to estimate the causal relationship between financial

performance and the independent variables. From the regression model, the study found out that there were internal audit function variables influencing the financial performance of commercial banks, which are Internal Control Environment, Internal Control Activities, Risk Management and Monitoring Activities. They all influenced it positively. The four independent variables that were studied explain a substantial 78.4% of financial performance among commercial banks.

From the analysis the study established that professional competence of internal auditor affects performance of Stanbic bank to a great extent. This established that measures that enhance the efficiency of auditors are important for effective fraud detection, in commercial banks frauds are identified by the internal audit function ,fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank, conscientiousness correlates with task performance just as strongly as cognitive ability, the study established the auditors in the organisation are qualified to undertake audit function.

The study established that internal controls affect financial performance of commercial banks in Uganda to a great extent. The study also revealed that internal Control audits in the organisation have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact, and that intentional errors are concentrated in relatively few audits and these are fairly predictable by the industry, others agreed that cash receipts bear fairly strong controls, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital, the greater the degree of competition, the greater would be the need to control costs as, and that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry.

The study sought to establish that Independence of Internal Audit affects the financial performance of commercial banks to a great extent. The study further revealed that, an internal auditor must be independent of both the personnel and operational activities of an organisation, the internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, each bank should have formalised

principles of internal audit providing for its position and powers in the framework of the bank, Independence is the essence of auditing, the integrity of the auditor's opinions, conclusions and recommendations would be suspect, internal auditors may not have a conflict of interests with the bank and finally that independence is necessary for the effective achievement of the function and objective of internal audit.

From the findings the study revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competency and internal control, this clearly shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control.

The study also established that there was a strong positive relationship between financial performance of commercial banks and internal audit standards, independence of internal audit, professional competency and internal control. The study revealed that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks.

The study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in performance of commercial banks.

Cooper and Craig (1983) found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time.

Peursem (2004) found that characteristics of a true profession exist but do not dominate. Significantly, and as subgroups, Peursem also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy-trained auditors may enjoy greater status owing to the mystery of the activities emanating from their membership of well-known accountancy professional bodies. The research supports prior studies by Coopers and Craig (1983), Cooper et al. (1966) and Gramling (1997) found that there are three concepts characteristic of those who best balanced their role: the internal auditor's external professional status; the presence of a formal and an informal communication network and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity.

A survey, by Ernst & Young, found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance, an equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issues.

Mawanda (2008) in his study established a significant relationship between internal control systems and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job.

Mutua (2012) concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

### **5.3 Conclusion**

This study examined the effect of internal audit function and financial performance of Commercial banks. The four independent variables that were studied (Internal Control Environment, Internal Control Activities, Risk Management, Monitoring Activities) explain a substantial 78.4% of financial performance among commercial banks.

Reager (2006) says in addition to identifying weak and overlooked controls, internal audits often lead to process improvement discoveries or efficiency breakthroughs and that such exchanges with internal auditors can provide employees with new perspectives on their positions triggering ideas for process improvements or new business possibilities which leads to an improved firm performance.

Firstenberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimise environmental risks.

The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Eighme & Cashell, 2002). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljević & Jovanovi, 2011).

### **5.4 Recommendations for Policy**

The study recommends that the companies should employ skilled and competent professional internal auditors to strengthen the internal controls and minimise fraud. This will yield high profits. With efficient internal controls, cases of fraud, embezzlement and cash mismanagement will be controlled hence supplementing the level of profits in the company.

The study further recommends training of employees in the companies as an important tool of motivating employees towards better performance. In fact through training, employees will get motivated and fully grasp all aspects of the internal control, hence better performance.

The study also recommends that companies should invest in market research so as to understand what people think of their services and/or products for improving financial performance of the companies.

Lastly the study recommends that the companies should ensure that they have a large number of members in the auditing board as a larger board size results in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimise environmental risks.

### **5.5 Limitations of the Study**

There were challenges which were encountered during the study. Some officers who are Concerned with safe custody of the companies' financial reports were initially reluctant to release them. That reluctance delayed the completion of data collection.

There was also limited availability of local literature with respect to the relationship between effectiveness of internal audit function and financial performance of commercial banks which was overcome by consultation of foreign literatures and reference to other relevant locally published materials.

In addition, time and resources allocated to this study could not allow the study to be conducted as deeply as possible in terms of other predictor variables for financial performance of commercial banks.

### **5.6 Suggestions for Further Studies**

The study focused on commercial banks but similar studies could be undertaken to look at the banks that are not commercial to find out whether it will yield the same results.

The Same study can be undertaken in other countries of East Africa to find out the effect of the effectiveness of internal audit functions on the financial performance of their

commercial banks.