

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

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**UGANDA CHRISTIAN  
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## DECLARATION

I, KEINEMBABAZI TASHA, hereby declare to the best of my knowledge that the work presented here has never been presented to any other institution of higher learning for any award.

Signed:  .....

Date: 9/9/2024 .....

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## APPROVAL

I hereby certify that this academic research was conducted under my supervision as the academic supervisor, and has been reviewed and approved.

NAME: Ms. Akinyi Lorraine

SIGNATURE:

A handwritten signature in black ink, appearing to read 'Akinyi', written over a horizontal line.

DATE: 09/09/2024

## DEDICATION

I feel that it would be honorable and desirable to dedicate this essay to my dear guardians, Mr. Mwesigye Edward and Mrs. Birungi Peace, for their unwavering support, moral guidance, and—above all—spiritual enrichment, all of which have served as a foundation for my academic success. Many thanks for it.

## **ACKNOWLEDGEMENT**

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## TABLE OF CONTENTS

DECLARATION .....	i
APPROVAL .....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENT .....	iv
ABSTRACT .....	viii
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.0 Introduction .....	1
1.1 Background of the study .....	1
1.2 Statement of the problem .....	3
1.3 Main objective of the study .....	4
1.4 Specific objectives .....	4
1.5 Research Questions .....	4
1.6 Scope of the study .....	5
1.6.1 Content scope .....	5
1.6.2 Geographical scope .....	5
1.6.3 Time scope .....	5
1.7 Conceptual framework .....	6
1.8 Significance of the study .....	6
CHAPTER TWO .....	8
LITERATURE REVIEW .....	8
2.0 Introduction .....	8
2.1 Internal audit practices and financial performance .....	8
2.1.1 Relevant theories .....	10
2.1.1.1 Agency theory .....	10
2.1.1.2 Contingency Theory .....	11
2.1.1.3 Lending Credibility Theory .....	12
2.1.2 The Determinants of The Internal Audit .....	12
2.2 Audit Risk Management and Financial Performance .....	17
2.3 Monitoring and Control Activities and Financial Performance .....	21

CHAPTER THREE .....	24
RESEARCH METHODOLOGY.....	24
3.0 Introduction.....	24
3.1 Research Design. ....	24
3.2 Study Population .....	24
3.3 Sample Size. ....	25
3.4 Sampling Technique.....	26
3.5 Data Sources .....	26
3.5.1 Primary Sources.....	26
3.5.2 Secondary sources .....	26
3.6 Data Collection Instruments .....	26
3.6.1 Questionnaire Survey Method .....	26
3.7 Data Analysis Technique.....	27
3.8 Validity and Reliability of Instruments .....	27
3.8.1 Validity of The Instruments .....	27
3.8.2 Reliability of the instruments .....	28
CHAPTER FOUR.....	28
DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS.....	29
4.0 Introduction.....	29
4.1 Descriptive analysis .....	29
Table 4.1 shows the gender of the respondents.....	29
Table 4. 2 shows the Marital status of the respondents.....	30
Table 4.3 shows the education level of the respondents .....	31
Table 4.4 shows the age of the respondents.....	32
Table 4.5 shows the length of service of the respondents.....	33
Table 4.6 shows the position of the respondents .....	34
4.2 Internal audit practices and financial performance of stanbic bank Mukono branch .....	35
Table 4.7 shows Internal audit practices and financial performance of stanbic bank .	36
4.3 Internal Audit Risk Management Practices and Financial Performance of Stanbic bank Mukono branch. ....	39
Table 4.8 shows the Internal Audit Risk Management Practices to The Financial Performance of Stanbic bank Mukono branch. ....	39

4.4 Monitoring and Control Activities and Financial Performance of Stanbic Bank Mukono Branch .....	42
Table 4.9 shows the Monitoring and Control Activities to The Financial Performance of Stanbic Bank Mukono Branch.....	42
SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	46
5.0 Introduction.....	46
5.1 SUMMARY OF THE FINDINGS.....	46
5.2. Conclusion.....	47
5.3. Recommendation.....	47
5.4 Areas of further research .....	47
References .....	48
APPENDICES.....	50

## ABSTRACT

The study focused on the effect of internal audit on the financial performance of commercial banks, a case study of Stanbic Bank, Mukono Branch. This study was guided by three key objectives: to determine the effect of internal audit practices on the financial performance of Stanbic bank mukono, to determine the effect of audit risk management practices on the financial performance of Stanbic bank mukono, and to determine the effect of monitoring and control activities on the financial performance of Stanbic bank Mukono.

This study used a mixed-methods approach, combining quantitative and qualitative data. Information was collected using well-crafted questionnaires from a sample size of 30 respondents selected using the stratified random probability and the purposive non-probability sampling techniques among those involved in audit and risk management processes at the bank.

The findings of the three objectives indicated that proper internal audit practices contribute to good financial performance due to increased transparency, accuracy in reporting, as well as adherence to regulatory standards. The engagement in practices of audit risk management reduces the potential losses resulting in increasing decision-making. Monitoring and control activities have been found as major means of ensuring continuity of financial stability because discrepancies that may occur in the financial practice are timely addressed before they affect the operations adversely.

It was, therefore, concluded that robust internal audit mechanisms significantly influence improvement in the overall financial performance of commercial banks. Recommendations to improve the internal audit functions within the banking sector were also provided.

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

This chapter contains, the background of study, problem statement, objectives, research questions, conceptual framework, scope of the study and significance of the study.

#### 1.1 Background of the study

The Latin word "Audire" (which means "he hears") is where the word "Audit" originated. This is a result of the estate domain account being verified by calling those who compiled it out to the appropriate authorities. When management of early major firms understood that annual audits of the financial statements by a Certified Public Accountant could not sufficient, Whittington and Pany (1995) argue, there was a demand for internal auditing. To put it another way, in order to guarantee that there were timely and correct financial records and to stop fraud, employees needed to be involved more than just the CPA.

Finally, because of the large stock exchanges and the Securities and Exchange Commission's requests for increased management accountability for the dependability of public financial statement operating rules and processes, internal auditors' activities have increased. Internal auditing proved to be a useful tool in addressing the growing operational challenges that larger, more intricate firms faced. On the other side, auditors will need to acquire specific knowledge in other fields including economics, law, finance, statistics, computer processing, engineering, and taxation if internal auditing is expanded into operational tasks.

Depending upon what purpose is to be served, Internal Auditing has been defined in a number of ways by Robertson, (1976). As per Pickett (1976), Internal audit is an independent, objective assurance and consulting activity designed to add value and

improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. This definition actually sets out to establish the scope and extent of the internal audit operation in an institution in contrast to the previous practice of examining dispensation of payment transactions over time.

There are many dimensions in which the financial performance of commercial banks can be examined. Muga (2012) observed that the significance of bank profitability could be judged at the micro and macro dimensions of the economy. It is the prime requisite at the micro level of any competitive banking organization-the cheapest source of capital.

It is a prerequisite for doing business in the era of intense competition on the financial markets, not just a byproduct. Because of this, the primary goal of any bank's administration is to increase profit as a prerequisite for carrying out operations.

Three accounting-based performance measures were listed by Schiuma (2003): return on investment, return on total equity, and return on assets. These have been routinely employed to assess how well financial institutions—commercial banks included—are performing. Inputs for statistical models that predict bank failures and mergers, evaluations of industry performance, forecasts of market structure trends, and a variety of other uses where a measure of profitability is necessary have been applied by bank regulators and analysts using ROA and ROE. Inputs for statistical models that predict bank failures and mergers, evaluations of industry performance, forecasts of market structure trends, and a variety of other uses where a measure of profitability is necessary have been applied by bank regulators and analysts using ROA and ROE.

Lastly, Rotenberg (2005) and Herman's son claimed that having a strong internal audit function is linked to better organizational performance. Empirically, a 1999 KPMG survey indicated that the internal audit function, when present in an organization, significantly boosts performance and helps uncover profit evidence in business

catastrophes, especially financial fraud. It also consistently shows a link between poor governance. Thus, internal audit could serve as a watchdog to protect the company from misconduct and anomalies, allowing it to fulfill its goals of guaranteeing high production and profit maximization.

## **1.2 Statement of the problem**

Pickett According to K.H. Spencer, the duties of internal audit include determining the presence of assets and recommending suitable security measures to keep them safe. Abu Kai Kamara (2016) "The main aim of an internal audit is to appraise the effectiveness and efficiency of internal controls, risk management, and governance processes, and, therefore recommending improvements". The evaluation of effective business operations and policy and procedure compliance is an additional responsibility of internal audit. Additionally, the activities to assess if outcomes align with predetermined goals and if planned operations are being executed, as well as the examination of reported cases of embezzlement, fraud, theft, waste, and so on. Among the responsibilities of internal auditing are training workers and management on improvement of business operations.

Alzeban and Gwilliam (2014) also state that inadequate internal auditing procedures lead to organizational failures. Companies around the world have failed not because internal audit procedures are absent but rather because the internal audits that have been implemented are unreliable and severely inefficient. Concerns regarding audit quality have arisen in the current climate, as serious mistakes have been exposed as a result of high-profile corporate accounting scandals and a call for integrity and transparency in financial reporting. Examples of these scandals include the Parmalat scandal in 2003 and the Enron scandal in 2001. There has been a decrease in the perceived dependability of audited financial data.

However, in the opinion of Kinyua (2008) and Richard Chambers (2015), laxity still exists in implementing internal audit findings and recommendations.

It is against this background that the researcher seeks to investigate the effect of internal audit on enhancing financial performance integrity

### **1.3 Main objective of the study**

The main objective of the study is to examine the effect of internal audit on the financial performance of commercial banks. A case study of Stanbic Bank, Mukono branch.

### **1.4 Specific objectives**

- i) To determine the effect of the internal audit practices on the financial performance of Stanbic bank, Mukono branch.
- ii) To determine the effect of audit risk management practices on the financial performance of Stanbic Bank, Mukono Branch.
- iii) To determine the effect of monitoring and control activities on the financial performance of Stanbic bank, Mukono branch.

### **1.5 Research Questions**

- i) How do internal audit practices affect the financial performance of Stanbic bank Mukono branch?
- ii) How do audit risk management practices affect the financial performance of Stanbic Bank, Mukono branch?
- iii) How do monitoring and control activities affect the financial performance of Stanbic bank, Mukono, branch?

## **1.6 Scope of the study**

### **1.6.1 Content scope**

The main focus of the research is a thorough examination of the connection between a public organization's financial performance and internal audits. Advisory services, monitoring, assurance, risk management, control system evaluation, information, and communication are all included in the scope.

### **1.6.2 Geographical scope**

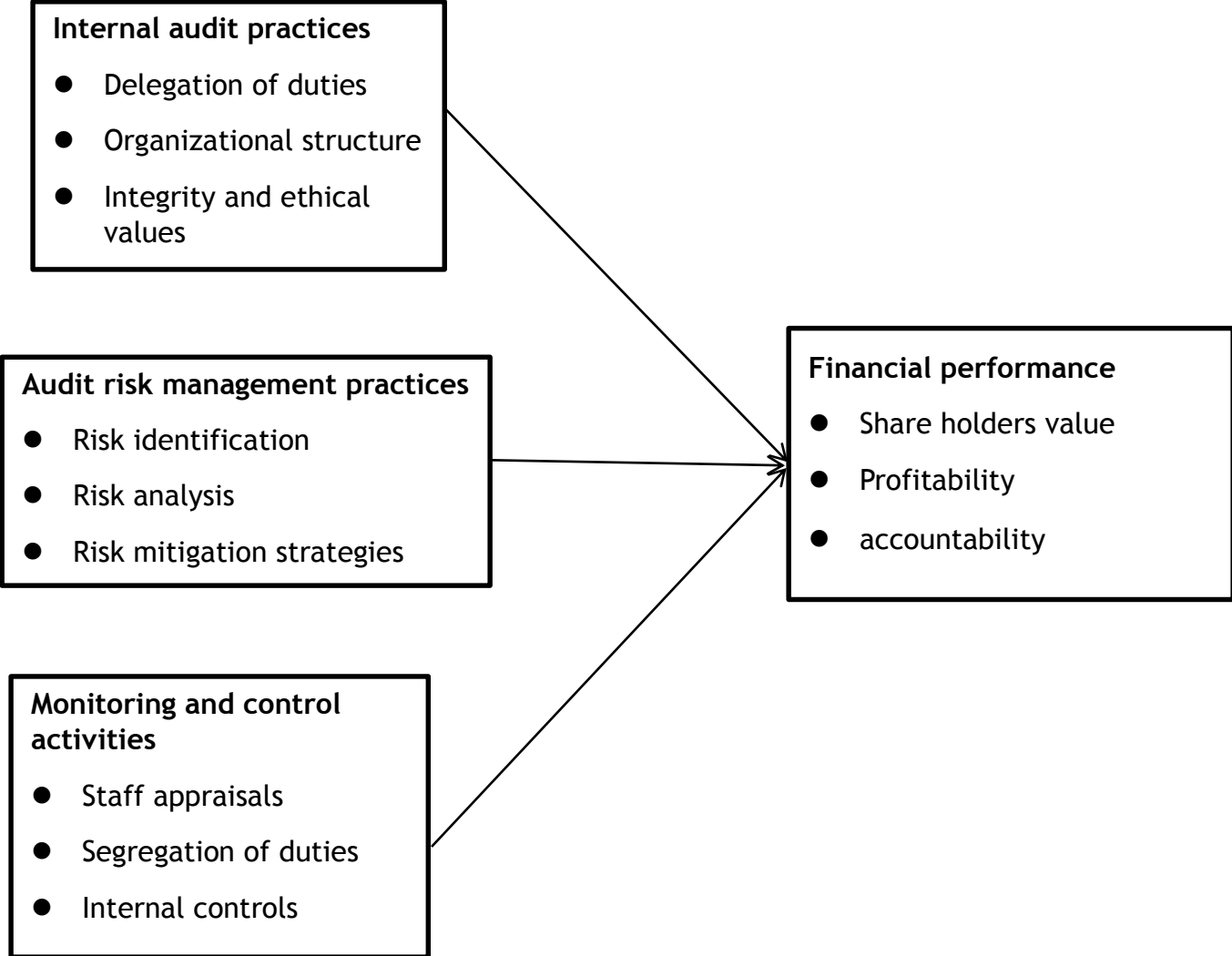
The study will be conducted at the Mukono Town Council branch of Stanbic Bank. Stanbic Bank was selected due to its status as one of Uganda's biggest commercial banks and its user-friendly website.

### **1.6.3 Time scope**

The study will examine how internal audit procedures have affected Stanbic Bank's Mukono branch's financial results during the previous five years.

**1.7 Conceptual framework**

A conceptual framework is described by Miles and Huberman (1944) as a visual product that illustrates the primary case under investigation, the important variables, the concepts, or the major aspects, and the assumed relationships between them either graphically or narratively.



source: The Institute Of Internal Auditors

## **1.8 Significance of the study**

The study will help management implement greater effectiveness and efficiency in the use of resources. According to E.H. Woolley (1988) FCA, an internal auditor's work consists largely of evaluating internal control systems and having conversations with authorities. The outcome of these interactions is then verified through record review and general record keeping.

Additionally, this would make it clearer to the shareholders why internal auditing is one of the most crucial management control systems that a company should have in place to protect their interests.

It's possible that no other researchers have done this kind of research before, but it will undoubtedly significantly improve the worth of today's interactive survey. In order to uphold the professional ethics established by the International Standards on Auditing, it will assist academics in appreciating internal auditing and expanding their perspective on it.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter offers a variety of writings from writers with comparable but distinct conceptual backgrounds. Put differently, it originates from research and observations conducted by other academics who possess a deeper comprehension of the subject matter being studied. Important concepts like internal audit, internal audit theories, internal audit impact on financial performance, and financial performance terms are defined.

#### 2.1 Internal audit practices and financial performance

Whittington and Pany (2001) characterized internal audit practices as the tone of the association by impacting the control awareness of individuals. They encourage affirm that control environment is seen as the establishment for the various segments of inner control. The management philosophy, operating style, and authoritative structure (which might be a well-organized structure that supports proper planning, organizing, and controlling of activities, or a disorganized structure that might merely serve to confuse the important actors by creating unclear sections) are all important considerations.

A manager's mindset should be centered on ethical business practices and following established control methods (Fish, 2001). This sets the foundation for all other internal controls by providing direction and organization. Integrity and moral principles; a commitment to health; the company's working theory and style; and the manner in which the organization assigns authority, manages its family, and fosters development are among the elements of the internal environment that are sharpened.

The five elements of the inner control system are established by the internal environment control procedures. Its role and function impact the overall activity of the venture in addition to the other four elements. Thus, the impact of the internal control system is specifically influenced by the control environment. Its role and function impact the overall activity of the venture in addition to the other four elements. Thus, the control environment has a particular impact on how the internal control system is implemented, so advanced initiatives should establish a sensible internal environment control (Eden, 2006).

There are a few components to internal environment audit practices; however, for the purposes of this investigation, the survey will focus on the morality and dependability of personnel who create and oversee controls, review councils and directorates, and administration rationality and working style. The Board of Management and the various advisory groups of the Board shall address the governing body with the reasons for the research (Verschoor, 1999).

Whittington and Pany (2001) also believe that these factors establish a foundation upon which the other internal control components can be produced. They also provide a framework within which other sections operate. However, these testimonials haven't stayed consistent in general since association management has consistently surpassed these safeguards, the lack of instruction.

The following background is typically included in the internal environment audit procedures. First, there is the integrity and quality of the personnel. The staff members play two roles: they are both the association's subjects of internal control and in charge of how their tasks are carried out, and they are also the association's objects of interior control, subject to regulation and control. Nothing about the internal control framework may surpass the reliability and caliber of the personnel who create, supervise, implement, and oversee the framework. In addition, administrative philosophy and style exist (Eden, 2006). The approach to managing the projects is influenced by the

leadership style, management philosophy, and ability to make decisions, especially by the supervisor's exceptional abilities and decision-making skills.

Directors design the association and administration part of the project and approve and outline the framework, which is how they primarily maintain control over it. Additionally, the association structure is included in the conclusion. Organizational structure, comprising association settings, duties, an individual's place within the association, and his authority and responsibilities. In general, association structure is the grantee for the project to be completed.

The configuration of the association's structure, the duties section, the individual's position within the association, and the authority and responsibility he possesses. In general, association structure is the grantee for the project to be completed.

## **2.1.1 Relevant theories**

### **2.1.1.1 Agency theory**

According to Adams (1994), the agency theory adds significantly to the body of knowledge on internal auditing. It explains the purpose, nature, and methodology of internal auditing and forecasts the effects of organizational restructuring and rationalization on internal auditors.

The agency relationship is predicated on the notion that parties involved in a corporation can be divided into two categories: principals, who own the company, and agents, who oversee it (Jensen & Meckling, 1976; Eisenhardt, 1998). According to the agency theory, there can be additional costs involved in resolving conflict between principals and agents as a result of a principal-agent relationship (Jensen & Meckling, *International Journal of Current Aspects in Finance, Banking and Accounting*, Volume 2, Issue 2, 2020, PP 46-58, ISSN 2707-8035 50 [www.ijcab.org](http://www.ijcab.org) 1976; Eisenhardt, 1998). Principal-agent theory is typically seen as the beginning point of this discussion. It has been suggested that agency theory has been the most prevalent topic in corporate governance.

According to agency theory, managerial decisions in today's widely held shares of corporations deviate from what is necessary to optimize shareholder returns (Mallin, 2007). This approach is used because, according to the agency theory, independent and non-executive directors support good company governance by influencing the decisions made by senior managers. They serve as a check and balance to increase the efficacy of the board, after all.

Therefore, the existence of the audit committees, and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994).

#### **2.1.1.2 Contingency Theory**

Contingency theory recently has become predominant theory that received larger researcher's concentration in the field of accounting and auditing (Abushaiba & Zainuddin, 2012)

There is no one right method to lead, govern, or manage an organization, according to Fiedler's 1967 contingency theory of leadership and management. Numerous internal and external elements impact organizations and their functioning. The diverse environmental conditions have an influence on the types of businesses that audits serve. Contingency theory, which holds that the audit approach and findings are dependent upon contingent and variable situations, can be used to handle auditing because of these factors.

According to Richard L. Daft (2012), contingency theory is the idea that something depends on other things, and contingency indicates that one thing depends on other things. Auditing functions can have a loose structure and are task-oriented. Auditors must carefully organize their inspections and take variables into consideration in order to complete the work. The functions can also vary significantly, depending on the location of a firm under audit and the type of business model. The composition of an audit team can also be analyzed using the contingency theory. Project managers for audit teams usually get audit assignments. After that, they form audit teams for the

projects and choose auditors for them based on their availability, experience, and subject-matter knowledge, all of which add up to contingencies for every particular audit project.

### **2.1.1.3 Lending Credibility Theory**

The lending credibility hypothesis and the agency theory are similar, according to Volosin (2007). According to the former, audited financial statements can increase stakeholders' trust in management stewardship. Groups such as the government, workers, creditors, management, and shareholders are directly involved in or impacted by the regulatory authorities' obligations surrounding financial reporting in the business world. The shareholders, prestigious organizations like banks and insurance firms, and individuals with comparatively modest stakes make up the largest group that receives annual reports. Generally speaking, they base their choices on financial reporting and the management's performance, as they have a fiduciary duty to act in the investors' best interests.

## **2.1.2 The Determinants of The Internal Audit**

### **2.1.2.1 Internal Audit Standards**

According to Glazer and Janie (1980), carrying out auditing tasks in accordance with internal auditing standards greatly increases auditing's efficacy. In the UK, Ridley and D'Silva (1997) discovered that the primary factor influencing internal audit's added value is adherence to professional standards. The Internal Audit (2008) publishes attribute, performance, and implementation standards for audits and audit-related services. Formal auditing standards generally acknowledge that internal auditors offer services related to information other than financial reports as well. They mandate that auditors perform their duties impartially and in accordance with recognized standards for professional conduct, so that internal audit activities assess risk management, control, and governance and make a methodical and disciplined contribution to their improvement.

This is crucial for meeting legal requirements, but it's also important because an auditor's job description may include evaluating situations requiring a high degree of judgment, and audit reports may directly influence management decisions or decisions about how to proceed (Bou-Raad 2000). Thus, it may be claimed that higher IA work quality, as measured by adherence to formal standards, along with high levels of planning and execution efficiency will increase the audit's efficacy.

#### **2.1.2.2 Independence of Internal Audit**

According to Cai Chun (1997), independence is the cornerstone of auditing. An internal auditor needs to be separate from the staff and daily operations of the company. In the absence of which, there would be good reason to doubt the veracity of the auditor's findings, analyses, and recommendations. As a result, independence is necessary for internal audit to function effectively and accomplish its goals. This very independence has two main sources: organizational position and objectivity.

According to Mgr. Lon Bogdan Dumitrescu, the 2004 internal audit research in financial institutions demonstrates that every bank needs to have a department of internal audit that it can rely on, both in terms of scope and size. Internal auditing at those smaller institutions is typically contracted out to other parties. To carry out its duties in an impartial and independent manner, the internal audit department needs to be organizationally isolated from both the audited operation and the day-to-day internal control operations. In other words, internal auditors and the bank should never have a conflict of interest. Every bank should have a formalized set of regulations outlining the responsibilities and powers of internal auditing. This document should include the services that internal auditors offer, the department's placement within the organizational structure, and its relationship to other control departments.

According to the Institute of Internal Auditors (2017), internal audits have to be unbiased and objective, which means they have to carry out their work without bias or uncertainty. The choice and execution of internal control systems, as well as bank activities, are off limits to members of the internal audit team. The proper operation

of the bank's internal audit department as a whole depends on each internal auditor's professional competence, internal motivation, and methodical professional development. It is also advised to rotate individual auditors within the departmental structure in order to prevent the needless execution of work tasks on a daily basis.

The internal audit manager is responsible for making sure the department follows accepted internal auditing practices. It is essential that the audit plan be formally documented and that each team member have access to the written processes. The department is required to guarantee continuous training and to continuously maintain the professional competence of its personnel. The bank's management, board of directors, and, if one is present, the audit committee, are the bodies to whom the internal audit department reports. The status of the audit plan and the department's accomplishment of its goals in accordance with the Basel Committee on Banking Supervision should be reported to these regulating bodies on a regular basis. (2012)

### **2.1.2.3 Professional Competency**

Fraud detection is a difficult task. Fraudulent activities are inherently unexpected and challenging to identify, auditors may lack expertise in fraud detection, and perpetrators actively engage in deceit in an effort to hide their actions (Herz and Schultz, 1999; Kaplan et al., 2010; Nieschwietz et al., 2000). Therefore, the firm would benefit most from finding and employing those people who seem to have certain distinctive personality traits or features that make them perhaps the most suitable for the fraud detection duty. For instance, Uecker et al. (1981) looked at the discovery of corporate irregularities using views of the relative aggression between internal and external auditors.

The majority of frauds are discovered by internal auditors, who play a significant role in fraud detection (KPMG, 2003, Norman et al., 2010). Any steps that can improve the effectiveness of auditors should be valuable because effective fraud detection is crucial. Certain personal traits may be indicative of the ability to spot fraud, even though skill and experience are unquestionably crucial in the detection process (Ashton, 1999).

A survey of the literature indicates a general consensus that the most prominent aspects of a person's personality may be described by the five-factor model (Judge et al., 2002). The personality trait known as conscientiousness is largely in charge of planning and guiding an individual's conduct. According to Dragman and Takemoto-Chock (1981), conscientious people are accountable, industrious, persistent, and meticulous.

Through a series of interviews with effective fraud examiners, Wells (2003) discovered that these people had a number of characteristics, each of which is an attribute of the conscientiousness dimension: perseverance, diligence, and honesty. Only conscientiousness has been proven to be a reliable predictor of job success in the context of the five-factor model across all occupational categories (Robertson et al., 2000). In fact, some research has shown that conscientiousness and task performance are correlated in the same way that powerfully as mental capacity (Alonso, 2000). Conscientiousness and task performance have been linked in the past, and this relationship has been proven to hold steady over time (Barrick et al., 1993). Job performance can be impacted by conscientiousness in a variety of ways. According to Viswesvaran (2006), conscientious workers are typically more dependable, driven, and industrious. They also tend to focus more intently on the work at hand and spend less time daydreaming. Increased productivity follows from a stronger assimilation of task-related knowledge (Ones and Viswesvaran, 2006).

It would seem that conscientious people would be more detail-oriented and benefit more from vicarious learning, which would increase their job knowledge and productivity (Bandura, 1977; Viswesvaran, 2006). These claims were supported by studies by Borman et al. (1991) showing a positive correlation with job knowledge and Colquitt et al. (2000) demonstrating a good correlation between conscientiousness and drive to learn.

#### **2.1.2.4 Internal Controls**

Control audits are intended to make sure that the proper software and system controls are in place to guarantee that internal checks and controls are operating as intended (Haylas and Ashton, 1982). Features to guarantee that fraudulent truncations are

detected or made difficult, if not impossible, to conduct, can be incorporated into controls audits. Controls audits guarantee that controls are operating, although they may not always reveal corruption or fraud. The objectives of an internal controls audit are related to management's plans, strategies, and practices for achieving the mission, goals, and objectives of the company. Planning, organizing, directing, and regulating program activities as well as the mechanisms set up to track, assess, and report on program performance are all included in internal control (Esmailjee, 1993).

In an attempt to demonstrate the efficacy of specific audit approaches in identifying errors that impact the financial statements, Haylas and Ashton (1982) proposed that all deliberate errors are concentrated in a small number of audits, and that they are reasonably predictable by industry. Although the most majority of these mistakes have an impact on revenue, their direction of effect can either be overstated or underestimated. In terms of how an issue is notified, they discovered that a significant percentage of financial statement inaccuracies are first detected via less stringent audit processes including analytical review and customer talks. Errors were found to be largely caused by client personnel issues, including ineptitude, inexperience, and a lack of understanding, as well as insufficient control follow-up or evaluations.

Salih (1983) assessed Ethiopian Airlines' internal controls at its Nairobi branch and found that the main vulnerability of the branch office was the absence of separation between the accounting and custodial duties. He made the case that it is necessary to centralize cash receipts, create an audit unit, divide the responsibilities of the purchase operations from the accounting unit, create a permanent inventory system for the tickets, and so on. He went on to say that maintaining control is essential, particularly in the highly competitive environment of today when people place a premium on cash consideration, capital asset and labor realization, and other cost-cutting measures.

The internal controls of the state-owned Nyayo Bus Service Corporation were examined by Esmailjee (1993). He noted that because the government accounting system is still in use, both cash receipts and cash disbursements are subject to rather strict regulations. The accounting systems for the businesses and payroll, however, left a lot

to be desired. A great deal of information was absent from the Organizational chart. Because the examination department also handled the regular control checks that the internal auditor was supposed to do, he was being underutilized. As a result, there were redundant efforts and an underestimation of the internal auditor's usefulness. In a research on internal audit control functions and how they affect the internal auditor's ability to identify risk, Keitany (2000): A case involving mentioned corporations came to the conclusion that, despite the fact that internal control's degree of dependence is not dependent on audit departments' capabilities, businesses shouldn't do away with it. This is because it should support management in its daily operations as a management tool and isn't always relevant to the external auditor. This could be explained by the possibility that the external auditor has unique requirements that go beyond the scope of the internal control issue. They also might have experienced a sharp rise in the market-adjusted cost of capital, which would have improved their internal control systems and resulted in a drop in market-adjusted capital.

## **2.2 Audit Risk Management and Financial Performance**

The possibility that an auditor will incorrectly certify financial statements as free of major misstatements when, in reality, they are not is known as audit risk. According to Arnes, Elder, and Beasley (2014), audit risk can be divided into three categories: inherent risk, control risk, and detection risk.

The success of any organization hinges on its ability to navigate a complex maze of internal and external risks. Internal control, meticulously managed, acts as the guiding thread, ensuring the organization reaches its goals while safeguarding its assets and reputation.

A shield for stakeholders, a robust internal control system isn't just a box to tick but it's a critical component of responsible governance. A well-designed system (Whittington & Pany 2010) contributes; Protecting shareholder investment by safeguarding assets and mitigating risks internal controls foster a climate of financial

stability, protecting shareholder investments. Preserving organizational reputation where effective controls minimize the likelihood of errors or fraudulent activities thereby preserving the organization's reputation and public trust. Ensuring operational efficiency through streamlined processes and sound risk management, internal controls promote operational efficiency leading to improved resource allocation and cost control.

Every organization faces a unique risk landscape where risks can stem from various sources broadly categorized as internal like human error, system failures or external like economic downturns, regulatory changes. As Kaplan and Norton, (2008) emphasizes risk assessment is the cornerstone of effective internal control. It's a continuous process that involves; Identifying potential threats which systematically pinpoint potential events that could derail the achievement of objectives. Assessing impact and likelihood through evaluating the severity of potential consequences and the probability of their occurrence. Calibrating risk tolerance through contrasting identified risks with the organization's established risk tolerance levels which helps determine which risk requires the most stringent control measures.

Risk assessments provide the foundation for building a responsive internal control system. As Whittington & Pany (2010) highlight, this system should be dynamic, adapting to the ever evolving internal and external environment. Management needs to consider potential changes that could render existing controls ineffective for instance a shift in regulations might necessitate revising internal controls related to data privacy practices. By proactively addressing these emerging threats and tailoring the internal control system accordingly organizations can navigate the maze of risks with greater confidence maximizing their chances of achieving long term success.

In today's dynamic business environment, successful organizations understand the pervasive nature of risk and prioritize its management. Corporate solid governance codes like those advocated by Pickett (2003) emphasize the board's responsibility to establish a risk management framework and transparently communicate it to stakeholders. Risk presents a double edged sword while it can disrupt operations

threaten financial stability and damage an organization's reputation, it can also be a catalyst for innovation and strategic advantage. The key lies in effectively identifying, assessing and mitigating potential threats. Internal auditors play a crucial role in safeguarding an organization by identifying all auditable activities and key risk indicators. They assess the significance of these indicators to determine the potential impact on the organization's objectives. As Beyanga (2011) suggests an effective internal control structure requires continuous monitoring of material risks that could negatively impact the achievement of goals.

Organizations face a spectrum of risks outlined by Beyanga (2011). Some of the most prominent include; credit risks that come up due to the risk of borrowers defaulting on loans. Market risks like adverse changes in market conditions impacting financial performance like stock prices, exchange prices. Operational risks that come up due to inadequate internal processes, human errors or technology failures thus losses. Liquidity risk that arises due to an organization being unable to meet its short-term financial obligations. Reputational risks that come up due to negative publicity damaging customer trust and brand image.

Internal controls need to be adaptable to address both new and previously unforeseen threats (Radu & Ramona, 2013). A crucial aspect of an internal control framework is the continuous identification and monitoring of potential risks, not just those that are readily apparent. From an internal control perspective, a risk assessment should encompass internal and external factors that could negatively influence an organization's objectives in terms of governance, financial reporting, and compliance.

Risk assessment is a critical concept in auditing, acting as the foundation for pinpointing areas that require scrutiny. The breakdown of its significance and various perspectives: Identifying and analysing risks (Lannoye 1999). Organizations are tasked with recognizing and evaluating potential threats that could hinder their ability to achieve objectives. This assessment forms the bedrock for deciding on appropriate risk management strategies.

The risk-based audit approach (Chocolate & Muhlstein 2005): The growing emphasis on risk-based auditing necessitates risk assessment to guide cost-benefit analyses of controls. Understanding the organization's nature and information systems allows auditors to identify and categorise risks more effectively. This understanding then informs the selection of the most suitable risk model for conducting the audit review.

Quantifying risk (Boritz 2005) risk assessment aims to quantify the riskiness associated with each auditable unit within an organization. This allows auditors to prioritize their focus on areas with the most significant potential for problems. By allocating scarce audit resources effectively, they can ensure the most critical areas are thoroughly reviewed.

Internal audit and risk management in the 5<sup>th</sup> edition 2017 by Holloway and Turner highlights the integration of risk management and internal audit functions emphasizing risk assessment's role in designing and executing audit procedures. A guide to enterprise risk management 2<sup>nd</sup> edition 2019 by Fiekowsky explores various methodologies for conducting risk assessments emphasizing tailoring the approach to the specific organization and its risk profile. Risk assessment in accounting a frame for audit evidence by Peterson and Debreceeny (2011) explores the role of risk assessment in providing a framework for gathering audit evidence emphasizing the link between risk assessment and the selection of appropriate audit procedures.

Building a robust risk management program extends beyond simply identifying and mitigating threats like embedding risk management in the culture through fostering a culture of risk awareness and ownership across all levels of the organization. Leveraging technology like utilizing the technology solutions for data analytics to gain deeper insights into potential risks. Regular review and improvement through conducting periodic reviews of risk management framework to ensure its ongoing effectiveness. COSO (2017)

### **2.3 Monitoring and Control Activities and Financial Performance**

The banking industry plays a crucial role in regulating the financial sector by providing the necessary resources and opportunities for financial inclusion for both individuals and companies. According to the study, bank management should enhance control measures by evaluating them to make sure they are all operating efficiently. They should also regularly assess current control measures and monitor policies, procedures, and activities carried out to make sure they are still relevant. Brown, L., and Smith, J. A. (2023).

The policies and processes that businesses develop to enable their management to carry out the appropriate directives are known as monitoring and control activities. They are made to help management ensure that appropriate actions and protocols are taken to control risks and also aid in achieving the goals of the organization.

Control encompasses both internal and external control actions that span across all organizational functions and are implemented at all organizational levels. They include a range of tasks like authorizing operations, securing assets, approving actions, conducting reconciliations, reviews of operational performance, and segregating assignments. Generally, control activities consist of two parts: procedures to guarantee that the policy is followed and a policy outlining what has to be done. All policies must be applied thoughtfully, methodically, and gradually (Anduuru, 2005).

Monitoring is a process that assesses the efficacy or quality of internal controls over a certain time frame, according to Eke (2018). According to Eke (2018), it comprises the acts that employees or workers take to carry out their duties as well as consistent managing and controlling actions. Devices that are used for budgeting and budgetary controls, performance evaluation, standard-setting, internal auditing, and top management supervision are among those that Eke (2018) claims are used for monitoring internal controls and are also used for measuring the quality of the monitoring system (Eke 2018).

A well-established system is expected to improve an organization's financial performance. Control and monitoring activities are important and crucial to an

organization's management; when the proper things are done in an organization, resources and assets are protected, which improves an institution's financial performance. Financial performance declines in organizations with lax oversight and control procedures.

Control exercises were mentioned by Ray and Pany (2010) as an additional component of internal controls. They note that control activities consist of frameworks and procedures that certify the completion of organizational instructions. In an association, the main exercises for controls are: execution surveys, which compare actual execution with spending plans, gauges, and previous period execution; data preparation, which is crucial for verifying accuracy, completion, and approval of exchanges; physical controls, which are crucial for providing security over records and other resources; and isolation of obligations, which states that no one person should handle every aspect of an exchange from the beginning to the end.

Through the development of techniques to handle certification, asset safeguarding, and a lucrative business environment, particularly accounting procedure, organization process, and operational method, a wide range of business entities have profited from internal controls. According to Ogneva, Subramanyam, and Raghunandan (2010), internal control must be effective when seen as an outline, which is typically for organization management and overall to financial statements.

As a result, internal controls should be constantly reviewed throughout the entire organization and integrated to strengthen the structure and increase benefits (Skaife, 2009).

Internal control structures known as control activities need to be observed. They are systems that evaluate and assess the structure's performance over time. Constant observation occurs during routine business operations and is combined with efficient management and control procedures, as well as additional staff actions to fulfill their duties, to assess the appropriateness of the internal control system's implementation (Colbert and Bowen, 1996). Risk analysis and the viability of setting up a monitoring

system play a major role in the creation and replication of specific measures (Anduuru, 2005).

Inadequate internal control should be brought to the forefront by promptly reporting genuine issues to higher authority and regulatory documents. Over time, internal control systems undergo modifications (Dumitrescu, 2004). When new employees arrive, the level of planning and supervision varies, time and resource requirements increase, or extra weights are added, the way controls are linked may advance and become less convincing. Conditions that were initially outlined for the control structure may also alter. Organizations must determine whether the internal control system is still linked and ready to handle emerging threats in the face of changing circumstances (Roth, 1997).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

The research technique has been highlighted in this chapter. The research design, study population, sample and sampling procedures, data collecting, data analysis, and data presentation strategies were all covered in detail.

#### 3.1 Research Design.

A research design is a strategy employed to obtain the anticipated outcomes of the investigation. It is the setting up of parameters for data collection and analysis with the goal of balancing procedural economy with relevance to the study goal. To put it simply, research design converts research difficulties into data that can be analyzed to provide the least expensive answers to research questions (Jongbo, 2014).

This study combined quantitative and qualitative methods in a cross-sectional research design. When the contextual circumstances around the event under study are crucial and the researcher has no influence over how the events transpire, a cross-sectional design is particularly helpful. Additionally, the design makes sense because it involves gathering data at a specific moment related to two or more variables in an attempt to identify correlations between them. Lankshear (2011)

Both quantitative and qualitative research designs were used in the study. The quantitative research design served as the main focal point of this investigation. The main aim was to select a small number of case studies where a thorough analysis identified the potential solutions for solving the research questions based on the current configuration.

### 3.2 Study Population

Kothari (2012) states that a researcher must have a target population for their research from which to draw all conclusions about the validity of the subject of their study. 33 people participated in the study, including employees of the Stanbic Bank Mukono Branch's internal audit department, customer service agents, human resources department, compliance department, IT support staff, senior bankers, branch manager, and assistant branch manager.

### 3.3 Sample Size.

Sampling is the practice of choosing a portion of the population to examine in order to identify broad trends. It is said that the population group is the focus of research and the goal of measurement.

The sample size of the study was 30 respondents which was determined by the mathematical formula of Tora Yamane as illustrated below

$$n = \frac{N}{1+N(e)^2}$$

Where N = the target population, n = the sample size, e= error

$$N= 33, e=5\%$$

$$n = \frac{33}{1+33(0.05)^2}$$

$$n = 30 \text{ respondents}$$

### **3.4 Sampling Technique**

Both probability and non-probability sampling strategies were used in the study. The population was stratified according to the characteristics of the work function, and as a result, random strata were selected from each group, or stratum, using the stratified random probability sampling technique.

Additionally, the researcher decided to utilize the purposive non-probability sampling technique since the subjects were chosen based on her assessment of which bank employees would be most helpful in providing information. Because of their experience and contextual understanding of the impact of the internal audit on Stanbic Bank's financial performance, the internal audit department was the focus of this sample technique.

### **3.5 Data Sources**

The data was collected from both primary and secondary sources

#### **3.5.1 Primary Sources**

Primary data is firsthand information was attained from the staff for the first time using well-crafted questionnaires aimed at finding out the effect of internal audit on the financial performance of Stanbic Bank, Mukono.

#### **3.5.2 Secondary sources**

Secondary data is the data obtained from other sources. This data was obtained from the financial statements, the Stanbic bank annual report and the audit reports for the past five years.

### **3.6 Data Collection Instruments**

Primary data, or data that was gathered directly from the field, was gathered for this study using questionnaires and interview guides (Creswell, 2018).

### **3.6.1 Questionnaire Survey Method**

According to Zegwaard et al. (2017), a questionnaire is a tool used to collect data from respondents that consists of a set of questions and additional prompts. It is frequently created with statistical analysis of the responses in mind. All employees of the Stanbic Bank Mukono branch's internal audit team will self-administer the questionnaire.

The method was chosen by the researcher because it saves time, allows for the confidential answering of sensitive questions by respondents, and covers a large number of respondents in a short amount of time.

In order to minimize disturbances to the respondents' routines, the researcher used a drop and pick later strategy to distribute the questionnaires to the sample respondents.

### **3.7 Data Analysis Technique**

Since data analysis provides a summary of the information gathered, it is the most important component of any research project. In order to identify patterns, correlations, or trends, it also entails interpreting the data collected using logical and analytical reasoning (Fleming, 2018).

The Statistical Package for Social Sciences (SPSS, Version 20) was used to do a descriptive analysis on the quantitative data obtained from questionnaires. All information from verbal conversations with informants is transcribed, and then the recorded material is meaningfully broken down into the smallest pieces of thematic information, subjects, and tendencies, and given as a text.

### **3.8 Validity and Reliability of Instruments**

#### **3.8.1 Validity of The Instruments**

According to Zegwaard and Hoskyn (2015), validity is the instrument's ability to measure the exact idea that it is intended to measure. According to Fleming (2018), validity also has to do with how reliable the research is in terms of the suitability of the conclusions

drawn from assessment outcomes. Content validity, defined by Young and Hsu (2017) as "the degree to which the data solicited using a particular instrument represent a comprehensive coverage of specific domains of indicators or content of a particular concept," was therefore applied by the researcher to the instruments.

The research instruments' final draft included all of their recommendations and opinions. Additionally, source triangulation was used in pilot testing to validate instruments by having internal auditors and heads of audit departments react to a series of questions that were similar in nature. Therefore, triangulation was used to get comparable data by using carefully constructed questionnaires.

### **3.8.2 Reliability of the instruments**

The consistency of a measurement test or research study, or the repeatability of outcomes, are two characteristics that characterize reliability. A test is deemed reliable when it produces consistent results under steady conditions and can be used by several researchers without producing different results. Reliability can be determined by patterns and consistency across time (Young and Hsu, 2017). Reliability was confirmed through the use of repeated tests, and the consistency of the outcomes was seen. In order to evaluate the validity of the questionnaires in the pertinent study region, a pilot study was carried out in this investigation.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

#### 4.0 Introduction

This chapter presents the findings of the study on the effect of internal audit on the financial performance of commercial banks, case study of Stanbic bank, Mukono branch. The data collected through questionnaires was analyzed using SPSS.

#### 4.1 Descriptive analysis

Table 4.1 shows the gender of the respondents

Gender	Frequency	Percentage
male	20	66.7%
female	10	33.3%
Total	30	100%

Source: field data (2024)

Respondent Demographics:

There was a clear disparity in the respondents' gender distribution: women made up only 33.35% of the sample, while men made up 66.7%. This implied that the male staff constituted the bulk of the internal audit team at the Stanbic Bank branch located in

Mukono. It showed a notable gender gap, which might affect the diversity and inclusivity of the company.

This does not, however, lessen the significance of its emphasis on the function that internal audit plays in improving financial performance. In order to guarantee a sound and stable financial organization, internal audit procedures are essential. Along with lowering risks and guaranteeing the best possible use of resources for profitability, a well-functioning internal audit can assist in identifying areas for organizational performance improvement. Consequently, knowledge gained from this study will be informed

**Table 4. 2 shows the Marital status of the respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Single	8	26.7%
Married	22	73.3%
Total	30	100%

**Source: field data (2024)**

An additional analysis of the respondents' marital status revealed that married people made up 73.3% of the sample, while single respondents made up 26.7%. Consequently, it can be said generally that married individuals made up the majority of the internal audit team at the Stanbic Bank office in Mukono. The findings revealed a significant variation in respondents' marital status, which was probably related to their job satisfaction and work-life balance. The respondents' marital status, while not the main focus of the study, becomes an interesting component for the internal audit to aid

enhance financial performance. The majority of respondents may view internal audit and financial management differently since they are married, which may provide them more security and responsibility at work.

**Table 4.3 shows the education level of the respondents**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate	2	6.7%
Diploma	5	16.7%
Bachelors	18	60%
Masters	3	10%
Doctorate	2	6.7%
Total	30	100%

**Source: field data (2024)**

A notable distribution was revealed by the respondents' educational backgrounds, with bachelor's degrees accounting for the majority of qualifications (60%) among them. This means that many of the members of the internal audit team at the Stanbic Bank branch in Mukono are undergraduates. From certificate holders (6.7%) to doctorate holders (6.0%), the results showed a quite substantial variance in educational attainment. Diploma holders made up 16.7% of the population, which was less than bachelor's holders (10.0%) but greater than master's holders (10.0%). Their background in business

and finance must have been connected to their roles as internal auditors and financial managers. Increased percentages of degree holders provide specialization to the team. In contrast, a small fraction of certificate holders would have actual skills and expertise.

**Table 4.4 shows the age of the respondents**

Below 20 years	6	20%
21-29 years	15	50%
30-39 years	3	10%
40-49 years	5	16.7%
50 and above years	1	3.3%
Total	30	100%

**Source: field data (2024)**

Respondent age distribution skewed towards younger adults, with a simple majority (50%) in the 21-29 bracket. This meant that the Internal Audit team at Stanbic Bank, Mukono branch was made up of the bulk of their professional staff at an early stage in their career life. The findings revealed that there was extreme variation in terms of age, with very few respondents below 20 years old (20%) and very few respondents aged 50 years and above (3.3%). Respondents falling within the 30-39 bracket constituted 10%, while those falling within the 40-49 bracket made up 16.7%— this was an indication that lay somewhere in between. The small proportion of young professionals might have laid a good foundation on modern auditing techniques and technologies influencing

their possible current approach to internal audit and financial management. The smaller proportion of older respondents might have brought valuable experience and expertise to the team. The study's findings gave some answers on the age demographics of internal audit team members and its impact on financial performance at Stanbic Bank, Mukono branch.

**Table 4.5 shows the length of service of the respondents**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
0-5 years	10	33.3%
6-10 years	8	26.7%
10-14 years	6	20%
15-19 years	4	13.3%
20 years and above	2	6.7%
Total	30	100%

**Source: field data (2024)**

The distribution of respondents' length of service revealed an intriguing pattern with a large concentration of relatively new workers, with a significant portion (33.3%) having worked for five years or less. This meant that the Stanbic Bank Mukono branch's internal audit team got a significant influx of new personnel and viewpoints. The results indicated that the proportions gradually decreased as the period of service increased:

26.7% served for six to ten years, 20% for ten to fourteen years, 13.3% for fifteen to nineteen years, and a negligible 6.7% for twenty years or more. Because there were many younger workers, there was a strong focus on creativity and flexibility, which may have influenced how they approached internal audit and financial management. Nevertheless, the lower percentage

**Table 4.6 shows the position of the respondents**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Branch manager	2	6.7%
Assistant manager	branch 2	6.7%
Internal department	audit 10	33.3%
Bank teller	8	26.7%
Customer representative	service 2	6.7%
Human manager	resource 2	6.7%
Compliance department	4	13.3%

Total	30	100%
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**Source: field data (2024)**

Respondents' positional distribution reveals a noteworthy concentration of internal audit personnel, with an important proportion (33.3%) holding positions within the internal audit department. This indicates that the internal audit team at Stanbic Bank, Mukono branch, is properly represented in the study, offering valuable insights into their perspectives and experiences. The findings reveal a smaller proportion of respondents occupying managerial positions: branch manager (6.7%) and assistant branch manager (6.7%). Besides, there is a relatively small percentage of respondents from the Customer Service & Human Resources department (6.7%) and from the Compliance department specifically (13.3%). The overwhelming majority of internal audit personnel might indicate an overemphasis on internal controls and risk management, which could have possible implications for their approach toward financial management as well as audit practices. Insights from this study's findings will be useful regarding respondents' positional demographics and their impact on financial performance at Stanbic Bank's Mukono branch.

**4.2 Internal audit practices and financial performance of stanbic bank Mukono branch**

The study ascertained Internal audit practices to the financial performance of stanbic bank Mukono branch in Uganda. The findings from the study are presented in the table below;

**Table 4.7 shows Internal audit practices and financial performance of stanbic bank Mukono branch**

	<b>Statement</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>St De</b>	<b>Mean</b>
1	The bank conducts internal audits regularly	93%	7%	0%	0%	0%	0.26	4.93
2	The bank has a typical audit process from planning the audit to reporting findings and recommendations from the findings	83%	17%	0%	0%	0%	0.45	4.73
3	The bank uses the following to conduct internal audits, Data analysis, Onsite inspections Interviews and surveys	73%	27%	0%	0%	0%	0.67	4.53
4	There is independence by the audit department on the activities being audited	83%	17%	0%	0%	0%	0.45	4.73
5	There is a formal process of tracking internal audit recommendations	67%	33%	0%	0%	0%	0.79	4.43

6	The internal audit findings are communicated to management regularly	83%	17%	0%	0%	0%	0.45	4.73
7	Measures of the audit function's efficacy include the quantity of issues resolved, management feedback, and audit plan conformance.	73%	27%	0%	0%	0%	0.67	4.53
8	The bank updates its internal audit practices regularly	67%	33%	0%	0%	0%	0.79	4.43
9	The internal audit department is provided with training and professional development opportunities	83%	17%	0%	0%	0%	0.45	4.73

**Source: field data (2024)**

The study indicated from Table 4.7 that implying that the bank carries out internal audits regularly with a (Mean 4.93, SD 0.26) therefore internal auditing is well institutionalized as a routine activity in the bank towards ensuring the effectiveness of internal controls, risk management, and financial reporting.

The study also showed a very strong vote of confidence from the respondents in regard to the bank having an already well-established audit process, with a (Mean 4.73, SD 0.45). It goes to indicate that the perception which they have-that this is a well-organized, structured, and comprehensive process for ensuring that audits are done thoroughly and professionally-is shared.

Results also showed that the agreement of the respondents was very high with regard to the fact that the internal audit department is independent in its audit activity, with a (Mean 4.73,SD 0.45).

Additionally, the results indicated that there was a very strong vote from the respondents that internal audit findings are regularly communicated to management with a (Mean 4.7,SD 0.45). This reflected that the internal audit function within the bank is perceived to sustain very high transparency and accountability ratings in informing management about audit findings and recommendations on time.

Moreover, the research indicated that there is a great consensus that employees are given sufficient training and professional development opportunities with a (Mean 4.73, SD 0.45).

The findings of the study indicated that bank utilizes different methods for the purposes of internal audits with a (Mean 4.53, SD 0.67) which signified that the perceptions of the respondents are very uniform in that regard.

In addition, the study showed that effectiveness of the internal audit function was based on a multivariate basis with a (Mean 4.53, SD 0.67). It means the bank applies a well-rounded evaluation framework against the internal audit function, considering both quantitative and qualitative aspects in relation to the measurement and impact of the function.

The result showed an over-agreement by the respondents that there is a formal process that Stanbic Bank, Mukono branch, undertakes to monitor and implement internal audit recommendations, represented by a (Mean 4.43 ,SD 0.79).

### 4.3 Internal Audit Risk Management Practices and Financial Performance of Stanbic bank Mukono branch.

The study ascertained the Internal Audit Risk Management Practices to The Financial Performance of Stanbic bank Mukono branch. The findings from the study are presented in the table below;

Table 4.8 shows the Internal Audit Risk Management Practices to The Financial Performance of Stanbic bank Mukono branch.

	Statement	SA	A	N	D	SD	St De	Mean
1	Internal audits have identified the following categories of risks: financial, operational, reputational, and compliance risks.	83%	17%	0%	0%	0%	0.38	4.83
2	The audit risks are identified through the following ways; Incident reports, Internal and external findings, Management discussions, 67Risk assessments	73%	27%	0%	0%	0%	0.67	4.53
3	Risks assessments are carried out regularly	67%	33%	0%	0%	0%	0.79	4.43

4	The severity and likelihood of the identified risks are carried out using; Qualitative and quantitative analysis, Risk assessment matrices and Scenario analysis	83%	17%	0%	0%	0%	0.38	4.83
5	Your department is involved in risk assessment	60%	40%	0%	0%	0%	0.82	4.33
6	These are the strategies employed to mitigate the identified risk; Risk acceptance, Risk transfer, Risk avoidance and Risk reduction strategies.	73%	27%	0%	0%	0%	0.67	4.53
7	The risk mitigation strategies are reviewed and updated regularly	67%	33%	0%	0%	0%	0.79	4.43
8	The ongoing risks are monitored through; Key risk indicators, Continuous auditing techniques, Manual tracking	83%	17%	0%	0%	0%	0.38	4.83

**Source: field data (2024)**

Table 4.8 of the survey demonstrates that respondents firmly agreed that internal audits at the Stanbic Bank identify a wide range of risk types, with a (Mean 4.83, SD 0.38) indicating high consistency across respondents' judgments.

As shown by the study, the response had a very strong consensus on the basis that to assess the severity and likelihood of identified risks at the bank, the techniques used are quite many with a (Mean 4.83, SD 0.38).It follows that the risk assessment

procedure at the bank is robust in the evaluation of probable impacts and the likelihood of hazards that have been found out by way of methods such as qualitative and quantitative.

This was evidenced by the results, which showed that there was an agreement that current risks are checked through a mix of KRIs, Continuous Auditing Techniques, and Manual Tracking; this is evidenced by the, (Mean 4.83, SD 0.38), implying that employees believe that the bank has adopted a very comprehensive and proactive means of monitoring risks.

The identification of audit risks at Stanbic Bank, was quite high in a multi-faceted approach with a ( mean 4.53, SD 0.67).

The study also revealed a very high level of agreement in the way risks are identified and supported. This was supported by a (Mean 4.53, SD 0.67). Therefore, the internal audit of the bank takes a proactive and comprehensive approach to risk identification based on various sources and techniques for identifying and assessing potential risks.

In addition, the study showed that there is a high level of agreement among the respondents that risk assessments are carried out regularly with (Mean 4.43, SD 0.79). Meaning the ongoing processes in the risk assessment need attention in order for evolved risks to be realized.

Additionally, the findings showed that most respondents strongly agreed that there was departmental involvement in risk assessment, with (Mean 4.33, SD 0.82). It showed that the risk assessment is done across departments in a very cooperative way, heavily weighted towards involvement and participation.

These responses strongly agreed that the bank applies a wide variety of strategies in mitigating identified risks, supported by a (Mean 4.85, SD 0.67). This reflected a proactive and multilateral approach by the bank toward risk mitigation.

According to the study, the participants strongly agreed to the assertion that risk mitigation strategies are reviewed and updated regularly supported by (Mean 4.43, SD

0.79). That is to say, the bank acknowledged the fact that risk mitigation strategies have to be reassessed time after time for refinement in order to make them effective and relevant.

#### 4.4 Monitoring and Control Activities and Financial Performance of Stanbic Bank Mukono Branch

The study ascertained Monitoring and Control Activities to The Financial Performance of Stanbic Bank Mukono Branch

Table 4.9 shows the Monitoring and Control Activities to The Financial Performance of Stanbic Bank Mukono Branch

	Statement	SA	A	N	D	SD	St De	Mean
1	The bank employs the following types of control measures: automated, detective, corrective, and preventive.	93%	7%	0%	0%	0%	0.26	4.93
2	The following are the methods used to monitor control activities; key performance indicators, periodic audits, continuous monitoring system and self-assessments	83%	17%	0%	0%	0%	0.45	4.73

3	The monitoring and control activities are continuously improved through frequent reviews and updates	73%	27%	0%	0%	0%	0.67	4.53
4	The control activities are designed and implemented based on; regulatory requirements, risk assessment results and industry-based practices	83%	17%	0%	0%	0%	0.45	4.73
5	Your department is responsible for the monitoring and control activities	67%	33%	0%	0%	0%	0.79	4.43
6	The bank's activities are carried out in compliance with the accounting and audit standards	93%	7%	0%	0%	0%	0.26	4.93
7	The results of the effectiveness of the monitoring and control activities are regularly communicated to management	83%	17%	0%	0%	0%	0.45	4.73

**Source: field data (2024)**

Table 4.9 revealed that a very high magnitude of agreement on the part of the respondents that Stanbic Bank, Mukono branch, applies wide-ranging control activities with a (Mean 4.93, SD 0.26). This further meant the bank adopted many-faced approaches to internal controls by using different measures in the several control activities.

Additionally, there was a very high level of agreement among respondents in the study on whether the bank operates within the set accounting and audit standards represented by ( Mean 4.93, SD 0.26).

Also, The findings revealed that sufficient variant methods in control activities monitoring, such as KPIs, periodic audits, continuous monitoring systems, and self-assessment were applied, supported with ( mean 4.73, SD 0.45).

The study established that the agreement that control activities were designed and put into place basing on several factors such as regulatory requirements, the result of risk assessment, and industry-based practices, with a (Mean 4.73, SD 0.45). That is to say, there is something one knows; a prevailing feeling that the bank does take an informed and comprehensive approach in designing and implementing control activities.

The study indicated that there was a strong consensus among respondents the results of the effectiveness of monitoring and control activities are regularly communicated to management, with (Mean 4.73, SD 0.45). Transparency and accountability in monitoring and control activities ensure that its practice prioritizes the bank to duly inform management to take corrective action when necessary.

The study ascertained that the monitoring and control activities are regularly reviewed and updated to enhance continual improvement with a very strong level of agreement (Mean 4.53, SD 0.67).

The study found that almost all the respondents strongly believed that their department is responsible for monitoring and control activities at the bank with a ( Mean 4.43, SD 0.79). This further indicates uniformity to a very high degree among perceptions that respondents know which roles their departments play in ensuring the effectiveness of monitoring and control activities.

## CHAPTER FIVE

### SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

The results, conclusions, and recommendations of the investigation into the impact of internal audit on the financial performance of commercial banks—a case study of Stanbic Bank's Mukono Branch are summarized in this chapter.

#### 5.1 Summary Of The Findings

The first objective was to determine the effect of internal audit practices on the financial performance of Stanbic bank, Mukono branch. The study found out that to a greater extent the bank conducts internal audit practices regularly and furthermore there is independence in the audit department on the activities carries out as well as having a typical audit process. These findings are in line with study conducted according to Cai Chun (1997) who states independence is the essence of auditing.

The second objective was to determine the effect of audit risk management practices on the financial performance of Stanbic bank, Mukono branch. The study found out that to a larger extent the bank identifies risks, assess the severity and likelihood of risks are carried out using several methods and how the ongoing risks are monitored using risk indicators. These findings are in line with Kaplan and Norton, (2008) emphasizes risk assessment is the cornerstone of effective internal control and Beyanga (2011) who suggests an effective internal control structure requires continuous monitoring of material risks that could negatively impact the achievement of goals.

The third objective was to determine the effect of monitoring and control practices on the financial performance of Stanbic bank, Mukono Branch. The study found out that to a greater extent, the bank applies a wide range of control activities furthermore the bank operates within the set accounting and audit standards .these findings are in line

with the study conducted by (Anduuru, 2005) who states that entirely all the policies must be implemented considerately, carefully and steadily.

## **5.2. Conclusion**

The study concluded that the financial performance of Stanbic Bank, Mukono Branch is significantly impacted by internal audit practices. Ratios of profit efficiency were used as the dependent variable. By this metric, efficient internal audit procedures improve financial performance.

Furthermore, the research demonstrated that the financial performance of Stanbic Bank, Mukono Branch, is significantly impacted by risk management techniques. Financial performance is improved by efficient risk management techniques, as measured by profitability and efficiency ratios. The study discovered a favorable correlation between financial performance and risk management techniques.

According to the study, by lowering mistakes and irregularities, monitoring and control operations have a substantial beneficial link with the financial performance of Stanbic Bank, Mukono Branch. Good monitoring practices improve adherence to audit and accounting rules, which raises the caliber of financial reporting even further. The study also discovered that because monitoring and control operations enhance financial performance by reducing errors and irregularities, they have an effect on uncovering material deficiencies.

## **5.3. Recommendation**

Stanbic Bank's Mukono Branch should aim to enhance its internal audit practices by strengthening risk management and control activities. The internal audit function should be independent, with direct access to the board, and supported by adequate infrastructure, resources, and expertise. Reports from internal audits should be timely and actionable, with recommendations implemented promptly. The bank is encouraged

to consider continuous auditing for real-time monitoring and ensure that internal audit practices are integrated across all operations.

The audit risk management practices should be integrated across all bank operations and regularly reviewed and updated. Continuous risk management training for staff is essential, and the bank must align its practices with regulatory standards. The bank is encouraged to adopt advanced risk management techniques, such as risk modeling, and establish a dedicated committee to oversee risk-related activities, including regular monitoring of risk reports. Seeking external expertise and bench-marking against industry peers will further strengthen these practices. The bank may greatly improve financial performance and risk management by putting these suggestions into practice.

Monitoring activities should be continuous and embedded across all functional areas, aligning with regulatory requirements and industry best practices. The bank is encouraged to invest in technology to enhance monitoring through continuous monitoring and real-time reporting. Transparency is key, ensuring stakeholders are informed and risks are clearly documented in reports. The bank might also consider establishing a dedicated monitoring committee. Monitoring should be integrated at all organizational levels, focusing on high-risk areas, and conducted by skilled personnel.

Outsourcing to third-party providers is an option, and regular reviews should be conducted to maintain the effectiveness of monitoring activities.

#### **5.4 Areas for further research**

More research should be done with an emphasis on how internal audit affects commercial banks' organizational performance.

Further research ought to be done on additional variables that affect commercial banks' financial performance.

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## APPENDICES

### APPENDIX I:QUESTIONNAIRE

Dear Sir/Madam,

I Keinembabazi Tasha a student at Uganda Christian University, Mukono pursuing a Bachelor's degree in Science of Accounting and Finance as a requirement in fulfillment of this degree,I'm carrying out a study on the, "Effect Of Internal Audit On The Financial Performance Of Commercial Banks, a Case Study Of Stanbic Bank, Mukono Branch.

You are considered as one of the resourceful persons and as such you are kindly requested to spare sometime and respond to the questions/statements frankly and honestly. Your response will be treated with utmost confidentiality.

Thank you for accepting to participate in this study.

### SECTION A: DEMOGRAPHIC INFORMATION

Instructions: Please tick where appropriate

1. Gender of the respondent:

- Male [ ]
- Female [ ]

2. What is your marital status?

- Single [ ]
- Married [ ]

3. What is your highest level of education status?

- Certificate [ ]

- Diploma [ ]
- Bachelors [ ]
- Masters [ ]
- Doctorate [ ]

4. Age of the respondent

- Below 20 years []
- 21-29 years []
- 30-39 years []
- 40-49 years []
- 50 years and above []

5. Length of service in the organization

- 0-5 years []
- 6-10 years []
- 11-15 years []
- 16-20 years []
- 21 years and above []

6. What position do you occupy in the bank?

- Branch manager [ ]

- Assistant branch manager [ ]
- Internal audit department [ ]
- Bank teller [ ]
- Customer service representative [ ]
- Human resource manager [ ]
- Compliance department [ ]

**SECTION B : INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE**

How effective are the following internal audit practices to the financial performance of Stanbic Bank Mukono branch. Use a scale of 1-5 where 5 =strongly agree, 4= agree, 3= neutral, 2= disagree and 1=strongly disagree.

Instructions: please tick where appropriate

No	statement	1	2	3	4	5
1	The bank conducts internal audits regularly					
2	The bank has a typical audit process from planning the audit to reporting findings and recommendations from the findings					
3	The bank uses the following to conduct internal audits					
i)	Data analysis					
ii)	Onsite inspections					

iii)	Interviews and surveys					
4	There is independence by the audit department on the activities being audited					
5	There is a formal process of tracking internal audit recommendations					
6	The internal audit findings are communicated to management regularly					
7	The effectiveness of the audit function is measured on					
i)	number of findings resolved					
ii)	feedback from management and compliance with the audit plan					
8	The bank updates its internal audit practices regularly					
9	The internal audit department is provided with training and professional development opportunities					

## SECTION C: INTERNAL AUDIT RISK MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE

How effective are the following Internal Audit Risk Management Practices To The Financial Performance of Stanbic bank Mukono branch. Use a scale of 1-5 where 5 =strongly agree, 4= agree, 3= neutral, 2= disagree and 1=strongly disagree.

Instructions: please tick where appropriate

No	Statement	1	2	3	4	5
1	The following are the types of risks identified in internal audits					
i)	Operational risks					
ii)	Financial risks					
iii)	Compliance risks					
iv)	Reputational risks					
2	The audit risks are identified through the following ways					
i)	Incident reports					
ii)	Internal and external findings					
iii)	Management discussions					
iv)	Risk assessments					
3	Risks assessments are carried out regularly					
4	The severity and likelihood of the identified risks are carried out using					
i)	Qualitative and quantitative analysis					

ii)	Risk assessment matrices					
iii)	Scenario analysis					
5	Your department is involved in risk assessment					
6	These are the strategies employed to mitigate the identified risk					
i)	Risk acceptance					
ii)	Risk transfer					
iii)	Risk avoidance					
iv)	Risk reduction strategies					
7	The risk mitigation strategies are reviewed and updated regularly					
8	The ongoing risks are monitored through					
i)	Key risk indicators					
ii)	Continuous auditing techniques					
iii)	Manual tracking					

**SECTION D: MONITORING AND CONTROL ACTIVITIES AND FINANCIAL PERFORMANCE.**

How effective are the following Monitoring And Control Activities To The Financial Performance Of Stanbic Bank Mukono Branch. Use a scale of 1-5 where 5 =strongly agree, 4= agree, 3= neutral, 2= disagree and 1=strongly disagree

Instructions: please tick where appropriate

No	Statement	1	2	3	4	5
1	The bank uses the following control activities					
i)	Preventive controls					
ii)	Detective controls					
iii)	Corrective controls					
iv)	Automated controls					
2	The following are the methods used to monitor control activities					
i)	key performance indicators,					
ii)	periodic audits					
iii)	continuous monitoring system					
iv)	self assessments					
3	The monitoring and control activities are continuously improved through frequent reviews and updates					
4	The control activities are designed and implemented based on					
i)	regulatory requirements					
ii)	risk assessment results					
iii)	industry based practices					
5	Your department is responsible for the monitoring and control activities					
6	The bank's activities are carried out in compliance					

	with the accounting and audit standards					
7	The results of the effectiveness of the monitoring and control activities are regularly communicated to management					

**THANK YOU FOR YOUR RESPONSE**

## APPENDIX II: INTRODUCTORY LETTER FOR DATA COLLECTION



**UGANDA CHRISTIAN  
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

02<sup>th</sup> Sep, 2024

TO WHOM IT MAY CONCERN

Name: TASHA KEINEMBABAZI

Reg. S21B33/041

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

The effects of Internal Audit on Financial Performance of Commercial Banks. A case study of Stanbic Bank Mukono Branch

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter  
Research coordinator



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