

**INTERNAL CONTROLS AND FINANCIAL PERFORMANCE OF COMMERCIAL
BANKS: A CASE STUDY OF STANBIC BANK UGANDA**

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**UGANDA CHRISTIAN
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DECLARATION

I, **TOGIATAYO MAMELA LORETTA**, hereby declare that this dissertation has been done by me and has never been submitted in for the award of degree in this University or any other institution of higher learning. All information presented is as a result of my personal work.

Signed .....

Date 18th 02/2026.....

APPROVAL

This Dissertation has been done under my supervision and is now ready for submission with my approval.

Signature.....

Mr. Kasozi Geoffrey

Date.....18th Feb, 2026.....

DEDICATION

I dedicate this research to my family who guided me through my education until the university level. First and foremost, I would like to thank God for guiding me through the completion of this dissertation.

ACKNOWLEDGEMENT

In this regard, I would like to thank God almighty who blessed me with wisdom and knowledge that enabled me to accomplish this work.

Firstly, I owe a lot to my parents because of the encouragement they offered me, which helped me achieve success. Their support was material, financial, and moral.

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ABSTRACT

This study aimed at evaluating the influence of internal controls on the financial performance of commercial banks, considering Stanbic Bank Uganda as the case study. The study specifically concentrated on the influence of the control environment, risk assessment, and control activities on financial performance. The study is anchored in Agency Theory, which highlights the importance of having measures that can help coordinate the behavior of the managers towards the goals of the stockholders to improve transparency and profitability. This study utilized the descriptive cross-sectional research design, which integrates the qualitative and quantitative methods of data collection and analysis. The study employed a sample size of 61 respondents using purposive and simple random sampling methods. Primary data were collected through questionnaires, whereas secondary data were collected from various sources such as journals and reports.

According to the results, the control environment has a positive significant effect on financial performance. The main contributors to financial performance through the control environment include leadership ethics, organizational structure, and transparency culture. In addition, risk assessment also had a significant positive effect, as proper identification and management of financial risks lead to financial performance improvement. Control activities were determined to be highly effective concerning financial performance due to operational processes, internal audits, fraud prevention, and access controls. In general, the results show that internal controls have a significant role in ensuring financial performance sustainability in commercial banks. According to the results, among all studied factors, control activities had the highest impact on financial performance, followed by risk assessment and the control environment. Therefore, based on the research results, the following recommendations are proposed to improve financial performance in commercial banks: continuous employee training, ethical leadership, risk management, optimized control activities, and internal control system integration. The study further recommends future research on the impact of internal controls on non-financial performance indicators, the role of technology in strengthening internal control systems, and comparative analyses of internal control practices across other commercial banks in Uganda.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Introduction to this chapter highlights the fundamentals of the study. The background of the study, statement of the problem, objectives of the study, research questions, scope of the study, and significance of the study are contained herein.

1.1 Background of the study

Internal control systems have become widely recognized as an essential tool in the quest for the effectiveness, efficiency, and improved financial performance of commercial banks. According to Al-Dmour et al. (2020), internal control systems comprise structured policies, procedures, and mechanisms that protect assets, enable the presentation of reliable financial information, and promote compliance with relevant laws and regulations. The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2020) asserts that internal control systems offer reasonable assurance that the objectives of an organization, including efficiency in operations and effectiveness in financial performance, are met.

Traditionally, the term "internal control" was used in the context of financial reporting. However, modern definitions of the term have adopted the risk-based approach in addressing the control environment in the management of commercial banks. The modern definition of the term is not limited to financial reporting; it covers the entire gamut of the operations of the bank. It includes the management of loans, the appraisal of loans, and the monitoring of the financial performance of the bank (Nkundabanyanga et al., 2021)

The components of the COSO framework, as described by the COSO (2020), include the control environment, risk assessment, control activities, information and communication, and monitoring. These components interact and change in a dynamic manner to address the ever-changing financial and operational risks. In the context of financial performance, the implementation of effective internal controls ensures the prudent issuance of loans, management of associated risks, tracking

of repayments, and the implementation of remedial measures in the event of defaults (Okello, 2022).

The three main categories of internal controls in the context of financial performance in banks and financial institutions are preventive, detective, and corrective controls. These controls seek to prevent errors and fraudulent transactions, identify errors such as non-performing loans (NPLs) or delayed payments, and limit losses by restructuring loans, recovering loans, and enforcing collateral, respectively. When effectively implemented, the financial performance of banks and financial institutions benefits significantly.

Financial performance of commercial banks can be described as the ability to make profits while at the same time ensuring liquidity and managing credit risk. Non-performing loans, when high, negatively affect financial performance in terms of profitability and liquidity, as well as influencing public perception of financial sector performance (Abubakar & Yinusa, 2020). Internal control mechanisms play an essential role as an internal governance tool to promote positive lending behavior, safeguard bank assets, and improve compliance with financial sector regulations (Isabirye, 2024).

Commercial banks such as Stanbic Bank Uganda play an essential role in financing agriculture, trade, and industry. However, there is an issue of defaulting loans and poor credit risk assessment. This, therefore, emphasizes the need for internal control mechanisms to improve financial performance for commercial banks (Bank of Uganda, 2023). This is because internal control mechanisms improve transparency, hence enhancing financial performance. This means that internal controls go beyond the regulatory requirements and encompass the basic mechanisms affecting the bank's performance. This study seeks to investigate the impact of the internal control mechanisms on the financial performance of Stanbic Bank Uganda.

1.2 Problem statement

Commercial banks are important in Uganda as facilitators or intermediaries between financial markets. Banks are especially important as providers of loans for both trade, agriculture, and industry. However, banks are experiencing a rise in loan defaults or non-performing loans

(NPLs). According to the Bank of Uganda (2023), non-performing loans have risen to 5.3% of all loans outstanding.

Internal control mechanisms are put in place to control these risks. However, most banks are experiencing inefficiencies in loan appraisal and credit control, including compliance with credit policies (Nabunya, 2022). These inefficiencies have resulted in delayed payments, loan defaults, and increased loan restructuring, which affect financial performance.

Globally, literature has shown that there is a positive relationship between internal controls and financial performance, such as profitability and reduced loan defaults (Otekunrin et al., 2021). However, in Uganda, there is an ongoing problem with repayment and an increased risk of credit defaults, indicating an internal control system failure (Isabirye & Mutesasira, 2024). Banks such as Stanbic Bank face an increased need to improve internal controls to monitor credit and adhere to regulatory guidelines. However, there is an ongoing problem with poor repayment and increased default rates.

The research gap in this case is that the literature does not provide any information regarding the effect of internal control on the performance of commercial banks. This particular study shall focus on the relationship between internal control and performance within the context of Stanbic Bank of Uganda specifically focusing on the elements of control environment and activities.

1.3 General objective

To examine the effect of internal controls on the financial performance of commercial banks, using Stanbic Bank Uganda as a case study.

1.4 Specific objectives

- i) To determine the effect of the control environment on the financial performance of Stanbic Bank.
- ii) To examine the effect of risk assessment on the financial performance of Stanbic Bank.
- iii) To assess the effect of control activities on the financial performance of Stanbic Bank.

1.5 Research questions

- i) What is the effect of the control environment on the financial performance of Stanbic Bank?
- ii) What is the effect of risk assessment on the financial performance of Stanbic Bank?
- iii) What is the effect of control activities on the financial performance of Stanbic Bank?

1.6 Scope of the study

1.6.1 Subject Scope

The study focused on the impact of internal controls on financial performance in commercial banks, particularly control environment, risk assessment, and control activities.

1.6.2 Geographical scope

The study was conducted in Stanbic Bank branches in Mukono Central Division, Mukono District, which lies 24 kilometers from Kampala, Uganda.

1.6.3 Time scope

The study targeted employees of Stanbic Bank who have served for a period of not less than three years in order to be able to offer relevant information.

1.7 Significance of the study

The research will contribute to the current literature on the impact of internal control and financial performance within commercial banks.

The research will assist in the formulation of guidelines that will direct the future course of action in the collection, analysis, and interpretation of data in order to form appropriate policies for banking governance.

The research will assist in identifying any weaknesses in the internal control systems of commercial banks and recommend how to improve internal controls.

The research will assist the researcher to meet the requirements for obtaining a Bachelor's degree in Business Administration.

1.7 Conceptual framework

Independent variable

Dependent variable

Financial performance

Internal controls



Source: Adapted from Rhona (2024) and modified by the researcher

From the above conceptual framework, it can be seen that the independent variable is “internal control systems” while the dependent variable is “financial performance.” From this, it can be seen that factors like control environment, risk assessment, and monitoring are directly related to financial performance of the bank.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, the literature review of internal control and financial performance within commercial banks, particularly with regards to Stanbic Bank Uganda will be discussed. Literature review consists of two forms, which are theoretical literature review and empirical literature review. The general purpose of literature review is to find out the role of internal controls such as control environment, risk assessment, control activities, communication, and monitoring in financial performance.

2.2 Theoretical review

The study was based on the concept of Agency Theory, proposed by Jensen & Meckling (1976). The agency theory is concerned with the association between the principal, i.e., the shareholders, and the agent, i.e., the management. This theory was proposed with the hypothesis that the interests of the agent do not always coincide with those of the principal due to their divergent objectives and information gap. The requirement of having efficient internal control mechanisms in commercial banks emerges from this theory as it ensures that the activities of the management conform to the interest of the organization.

Internal control systems can be considered as a tool for matching the actions of managers with those of shareholders through properly developed procedures so that organizational resources are not misutilized, as discussed in Fama (1980). Anthony & Govindarajan (2007) have stressed the importance of effective internal control systems so that inefficiencies in operations can be reduced, fraud can be checked, and financial accountability can be increased.

According to the Committee of Sponsoring Organizations of the Treadway Commission (2013), internal control is "a process affected by the entity's board of directors, management, and other personnel which provides reasonable assurance regarding the achievement of objectives in operations, reporting, and compliance." As such, agency theory and COSO will be the guiding theories in the study since they both emphasize the significance of internal control mechanisms in the achievement of efficient financial performance.

2.3 Control environment on the financial performance

There have been a variety of empirical studies carried out to examine the connection between corporate governance, internal controls, and financial performance.

Nyaga (2007) conducted research to find out the impact that certain aspects of corporate governance had on the performance of manufacturing firms whose stocks were listed on the Nairobi Stock Exchange (NSE). This research relied on primary data obtained from observations carried out on NSE-listed companies over a span of ten years from 1996 to 2006. The results show that there was a positive linear association between corporate governance and performance. The performance of the manufacturing firms was positively correlated with such corporate governance attributes as meetings of the board, monitoring, board structure, insider ownership, and CEO incentives.

According to Arwinge (2013), internal controls have been established within organizations in a way that will ensure the legitimacy of the organization as well as promote survival. This notion is consistent with the corporate governance theory and can be strengthened by the regulatory framework like the Sarbanes-Oxley Act of 2002. As part of a response to corporate scandal cases like that of Enron Corporation, this Act mandates organizations to assess their internal control mechanisms for their effectiveness in financial reporting.

The relationship between internal control systems and financial performance at a higher learning institution in Uganda was explored by Mawanda (2008). In this research, internal control systems were defined in regard to internal audit, control environment, and control activities, whereas financial performance was measured through the use of factors like accountability, liquidity, and reporting quality. An exploratory approach was used to carry out the research, and results showed that there existed a considerable relationship between internal control systems and financial performance.

According to Olumbe (2012), the intention of the research was to ascertain the existence of the linkage between internal controls and corporate governance in commercial banks within Kenya. The factors under study included equity composition, business governance, internal and external monitoring, and board composition. The researcher used a descriptive research approach where he

obtained his information through questionnaire and interview. Data was analyzed using a linear regression model which produced findings showing that there exists an observable linkage between internal controls and the elements of corporate governance. Nevertheless, the research was narrow-sighted since it only covered certain elements of internal controls and not financial performances.

The impact of internal control systems on the financial performance of SACCOs was examined by Magara (2013) in Kenya. In this research, internal control elements, including the control environment, risk assessment, control activities, and monitoring, were used as independent variables, whereas financial performance was used as the dependent variable. Primary and secondary data sources were employed, with secondary data being collected from the annual reports of SACCOs. Data analysis was carried out using the multiple regression method. The results indicated a significant and positive correlation between internal control systems and financial performance. It was concluded that the effective implementation of internal control elements plays an important role in improving financial performance. Nonetheless, like the study by Olumbe (2012), the information and communication element was not included in the study.

2.3 Risk assessment and financial performance

Pagano (2010), observed the importance of risk management on financial organizations in creating value for customers and shareholders. In corporate finance, the benefits of risk management had been associated with the shareholder value maximization theory. Ali & Luft (2002), moreover, pointed out that when there is an increase in shareholder value, a company will implement the practices of risk management. Consequently, hopes of increasing the value of the firm and the wealth of the shareholders had been made from successful risk management practices in banking institutions as well as non-banking companies. Pagano was noted to give a lot of significance to shareholder wealth through risk management, focusing only on one component of the internal control mechanism. In contrast to other researches in the same field, the researcher relied much on the agency theory.

In the case of the empirical studies carried out in respect of the efficiency and risk aspects for large domestic banks in the United States, Linbo Fan (2004) identified that the profitability efficiency is responsive to the credit risk, insolvency risk, but insensitive to liquidity risk and lending products combination. On reviewing the literature regarding exchange rate and interest rate exposure of firms in Korea, HoHahm (2004) observed that most of the commercial banks and the banking industry in goods trading in Korea were exposed to interest and exchange rate risks, making the profitability of the commercial banks positively associated with exposure before the crisis. In HoHahm's study, he examined the risk management component alone while excluding other three components.

A study by Kimotho (2015), revealed that credit risk management procedures influenced profitability of the bank positively. The aim of the study was to find out whether credit risk management strategies influenced the financial performance of commercial banks in Kenya. In this study, the researcher employed the semi-structured questionnaire approach in obtaining primary information and adopted descriptive research design. It is important to note that in his study, the researcher employed SPSS version 20 in analyzing the data collected. In Mwangi's study, the methodology of the research was very similar to that of Kimotho's. Both of the researchers applied the same descriptive research design. Similarly, like Olumbe and Mwangi's studies, Kimotho's study only considered one side of the internal control risk management which

was not enough to justify the statement that internal control system influenced financial performance of commercial banks.

To sum up, risk assessment is essential to comprehending and assessing the possible risks that could affect a business's financial performance. Businesses can create plans to reduce these risks and enhance their overall financial performance by recognizing and evaluating them.

2.4 Effect of control activities on financial performance

Barra (2010) carried out research to investigate the relationship between internal controls and associated penalties and their impact on employees' intent to commit fraud. The researcher used the analytical method of investigation, focusing specifically on control activities. The data collection was done from managers as well as non-managers. The findings indicated that the existence of control activities like segregation of duties makes the process of committing fraud costly for employees. Nevertheless, the research examined just one element of the internal control system, control activities. This flaw mirrors those present in previous studies carried out by Kariuki (2017), Kimotho (2015), Mensah (2014), and Mwangi (2012). These studies focused on the examination of different elements of the internal control system, yet each study considered only one element of the internal control system. Moreover, Barra (2010) did not mention the organizational environment within which internal controls were implemented.

The research work by Ejoh and Ejom (2014) aimed at examining the effects of internal controls on financial performance in Nigerian tertiary institutions. In their research, they employed indicators like accountability, liquidity, and accounting reporting to gauge organizational performance. They made use of both primary and secondary sources for data collection purposes. Their results showed that there is no considerable effect of internal control on financial performance in Nigerian tertiary institutions. Also, they found out that the internal controls were weak because in some instances, an individual was able to access sensitive information without having the authority.

The conclusions drawn by Ejoh and Ejom differ from the conclusions made by other researchers because these authors accepted the null hypothesis while others rejected it with the same research aims. Similar to the study carried out by Mawanda (2008) in Uganda, Ejoh and Ejom were solely

interested in schools as opposed to all organizations. In addition, just like the researchers mentioned above, namely Kariuki (2017), Kimotho (2015), Mensah (2014), and Mwangi (2012), the two authors were interested in examining the effects of only one aspect of internal control systems.

Ngari (2017) investigated the impact of internal controls on the financial performance of microfinance institutions in Kenya. This study concentrated on vouching, segregation of duties, and internal audit as forms of internal controls. Ngari adopted descriptive surveys and diagnostic research approaches using the positivist research approach framework. Data were collected through primary and secondary data collection and analyzed by using multiple regressions, the results of which were represented in tables. From the study results, it is clear that internal controls such as vouching, segregation of duties, and internal audit affect the financial performance of microfinance institutions.

The study conducted by Ngari (2017) is analogous to Oyoo's (2014) study because both considered micro-finance institutions. Nonetheless, whereas Ngari carried out her study in various regions of Kenya, Oyoo restricted his study in Kisumu County alone. Moreover, like other studies done by Mwangi (2014), Oyoo (2014), and Kimotho (2015), Ngari

2.5 Conclusion

Numerous sectors have conducted extensive study in the field of financial performance measures. On the other hand, not enough data was available regarding the financial factors that affect commercial banks' financial performance. The researcher believed that there was a gap in the previous studies. The Control Environment, Control Activities, Risk Assessment, Information Communication Technology (ICT), and Monitoring were found to be important determinants of performance based on the literature review. It was clear from the literature review that many academics agreed that there was a connection between the organization's financial performance and its internal control system. However, when empirical evidence was gathered, the conclusions were validated and the suspicions were dispelled.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The study's methodology was described in this chapter. The research design, study population, sample size, sampling strategies, data sources, data collection tools and methodologies, and data presentation and analysis protocols were all included.

3.1 Research Design

The study used both qualitative and quantitative methods in a descriptive cross-sectional research design. The cross-sectional design was used because it made it possible to gather information from respondents all at once. The degree of correlation between internal controls and financial performance was measured using the quantitative approach, and a great deal of information about respondents' opinions and experiences with the bank's internal control systems was gathered using the qualitative approach.

3.2 Study Population

The research was done at Stanbic Bank Uganda, and the specific areas of interest were the Mukono branch and other nearby branches. The population of interest comprised 70 employees from the Finance and Internal Audit departments. This population comprised 48 senior management staff, 2 internal audit officers, and 20 finance officers, making up the population of interest to be 70.

3.3 Sample Size

A sample size of 61 respondents was selected using the Krejcie and Morgan (1970) statistical table. The sampling structure is shown in Table 1 below:

Table 1: Study Population and Sample Structure

Category of Staff	Population	Sample Size	Sampling Technique
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Senior Management	48	40	Purposive
Internal Audit Officers	2	2	Purposive
Finance Officers	20	19	Simple Random Sampling
Total	70	61	

The above table showed the population, sample size, and sampling method used in the study. Three strata were used in the study. They included the senior management, the internal audit officers, and the finance officers. This gave the researcher a population of 70 and a sample size of 61. Purposive sampling was used to determine the sample size for the senior management and the internal audit officers. For the finance officers, the researcher used simple random sampling.

3.4 Sampling Technique

The researcher used both probability and non-probability sampling methods in the study. Purposive sampling was used in selecting the senior management personnel and internal audit officers because they had the necessary information on internal control systems and financial performance. Simple random sampling was used in selecting finance officers because every individual had an equal probability of being included in the sample, thereby reducing any form of sample selection bias.

3.5 Sources of Data

The research utilized both primary and secondary sources of data. Concerning the primary sources of data, the researcher utilized information gathered directly from the respondents through the use of questionnaires and interviews, while concerning the secondary sources of data, information was gathered from different materials like books, journals, reports, and documents on internal controls and financial performance.

3.5.1 Primary Data

Primary data relates to the information collected for the first time directly from the respondents. Such information was collected by using a structured questionnaire and interview schedule. This

information helped in gaining first-hand information and knowledge, which was otherwise not available.

3.5.2 Secondary Data

The secondary data were pieces of information that were already collected and published by other people. This information was collected from textbooks, journals, annual reports, research articles, and other reliable documents pertaining to internal controls and the performance of commercial banks.

3.6 Data Collection Instruments

The study used questionnaires as the main data collection instrument.

3.6.1 Questionnaire

For the purpose of collecting quantitative data, the use of questionnaires was considered. The use of questionnaires was both closed and open-ended in nature. This helped in collecting relevant information regarding the internal control systems and financial performance. The use of questionnaires was considered useful in collecting specific data. The data collected was easily quantified. The use of this approach was considered efficient in terms of time. The use of questionnaires was easily administered and responded to (Amin, 2005). The questionnaires were sent to all the 61 targeted respondents.

3.7 Data Presentation and Analysis

The data was checked for completeness, encoded, grouped, and entered into the computer for analysis. The quantitative data was analyzed with the aid of the Statistical Package for Social Sciences (SPSS), which generated frequency distributions, percentages, etc. The qualitative data was analyzed thematically in order to derive patterns/insights useful in interpreting internal control practices and financial performance.

3.8 Ethical Considerations

In research, ethics meant the appropriateness of the researcher's behavior with regard to the rights of participants and those affected by the research (Saunders, Lewis, & Thornhill, 2009). The researcher made sure that the research was not only methodologically good but also ethical. This means that participants were not coerced to take part in the research. In addition, participants were made aware of the research and the potential harm before agreeing to take part. During the research, participants were given anonymity and confidentiality. No participant was harmed by the research.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter will show, interpret, and analyze the findings of the research in line with its objectives. This study was conducted with the objective of examining the effect of internal control on the financial performance of commercial banks. In order to conduct the research, Stanbic Bank Uganda Limited was selected as the case study institution. Data were obtained from employees of Stanbic Bank Uganda through questionnaires. The data were analyzed using descriptive, correlation, and regression analyses with the aid of SPSS software. The results will be presented at a 95% response rate.

4.2 Response Rate

Table 4.1: Response Rate

Description	Frequency
Questionnaires given out	64
Questionnaires brought back	61
Questionnaires not returned	3
Response rate	95%

Source: Primary Data (2025)

The high rate of 95% implies high cooperation from the respondents. This is sufficient for the purpose of statistical analysis. According to Mugenda and Mugenda (2013), a response rate of more than 70% is adequate for academic purposes.

4.3 Demographic Characteristics of Respondents

4.3.1 Gender of Respondents

Table 4.2: Gender Distribution

Gender	Frequency	Percentage (%)
Male	27	44
Female	34	56
Total	61	100

Source: Primary Data

The results show that **56% of respondents were female** while **44% were male**, indicating gender inclusivity at Stanbic Bank Uganda.

4.3.2 Age Group of Respondents

Table 4.3: Age Distribution

Age Group	Frequency	Percentage (%)
21–30 years	11	18
31–40 years	15	25
41–50 years	23	38
Above 50 years	12	19
Total	61	100

Source: Primary Data

Table 4.3 illustrates the age distribution of the respondents. From the table, it is clear that most of the respondents were within the 41-50 years bracket, constituting 38% or 23 out of the total sample. This implies that most of the respondents were probably mature and therefore had significant work experience relevant to the study. Those within the 31-40 years bracket constituted 25%, or 15 out of the sample. Those above 50 years were 19%, or 12 out of the sample. This again proves a point that most of the participants were probably experienced in life. The least percentage of the sample was within the 21-30 years bracket, constituting 18%, or 11 out of the sample. This again proves a point that most staff have significant work experience relevant to internal control practices.

4.3.3 Education Level

Table 4.4: Education Level

Education Level	Frequency	Percentage (%)
Diploma	9	15
Bachelor's Degree	40	66
Master's Degree	10	16
Others	2	3
Total	61	100

Source: Primary Data

Table 4.4 shows the education levels of the respondents. From the table, it is evident that the majority of the respondents were highly educated. For instance, 66% of the respondents had a bachelor’s degree, while 16% had a master’s degree. This means that 82% of the respondents had at least a bachelor’s degree. Additionally, 15% had a diploma, while only 3% had other qualifications. This shows that the majority of the respondents had adequate exposure and competence to comprehend, interpret, and respond to questions concerning internal control systems. Accordingly, the high education levels of the respondents provide credibility, reliability, and validity to the information collected. This is because the information obtained will be accurate and precise, thus enhancing the study’s findings and conclusions.

4.3.4 Length of Service

Table 4.5: Length of Service

Years of Service	Frequency	Percentage (%)
0–5 years	36	59
6–10 years	19	31
11–15 years	4	7
Above 15 years	2	3
Total	61	100

Source: Primary Data

Table 4.5 displays the number of respondents based on the years of service in the organization. From the study, it is evident that the majority of the respondents (59%) had served in the organization for 0-5 years, followed by 31% who had served for 6-10 years, while a small number of respondents had served for 11-15 years (7%) and above 15 years (3%). This implies that the majority of the respondents were in the early stages of service in the organization. This is significant in the study because it implies that the study has covered the experiences, perceptions, and practices of workers in the early stages of service in the organization, which are more adaptable to changes in the organization. In addition, the study has included a small number of workers who have served for a longer period in the organization, thus increasing the study's credibility by including both the experiences of workers in the early stages of service and those in the advanced stages of service.

4.4 Effect of Control Environment on Financial Performance

4.4.1 Descriptive Statistics

Table 4.6: Control Environment

Statement	Mean	Std. Deviation
Management demonstrates strong ethical values	4.31	0.78
Organizational structure defines authority clearly	4.25	0.81
Leadership sets positive tone for controls	4.28	0.74
Management communicates importance of controls	4.19	0.83
Employees are adequately trained	4.07	0.89
Culture promotes transparency and compliance	4.33	0.71
Clear separation of duties exists	4.21	0.80
Overall Mean	4.23	0.79

Source: Primary Data

The results presented in Table 4.6 show that the control environment within the organization is quite strong and well-established, as evidenced by the high mean values for all the statements. All the statements presented in Table 4.6 had mean values greater than 4.00 on the Likert scale, indicating that all the respondents agreed on the presence of key elements of an effective control environment. The relatively low standard deviations (ranging from 0.71 to 0.89) for all the statements also show that there is consistency in all the perceptions of all the respondents.

In particular, the statement “Culture promotes transparency and compliance” had the highest mean value (Mean = 4.33, SD = 0.71), indicating that all the respondents strongly perceived the organizational culture as promoting ethical behavior, transparency, and compliance with all relevant regulations. This is an essential element of an effective control environment, as an organizational culture promoting transparency and compliance is likely to improve organizational accountability, thereby reducing the risk of fraud and mismanagement, which is likely to improve financial performance.

Similarly, “Management demonstrates strong ethical values” reported a high mean of 4.31 (SD = 0.78). This means that the management is considered ethical in its conduct. Ethical leadership is the cornerstone upon which the control environment will be effective because it will shape the behavior of the employees. Ethical leadership, in this case, means that the management leads by example, thus creating a culture of trust within the organization.

The study findings showed a high level of agreement among the respondents concerning the significance of the control environment. This is because the statements "Leadership sets a positive tone for controls" had a high mean of 4.28 (SD = 0.74), while "Management communicates the importance of controls" had a high mean of 4.19 (SD = 0.83). This means that the leadership in the organization does not only support the internal control system but also communicates the importance to the employees. This will instill compliance in the employees, thus enhancing efficiency in the organization.

In addition, the organization’s structure and responsibility were also rated positively. This was seen in the positive rating accorded to the two statements. While the first statement, which read “Organizational structure defines authority clearly” had a mean value of 4.25 (SD = 0.81), the second statement that read “Clear separation of duties exists” had a mean value of 4.21 (SD = 0.80). These values show that there is a clear definition of roles and responsibility in the organization. The structure ensures that errors, frauds, or conflicts of interests are kept at bay, thus enhancing the organization’s financial performance.

This positive rating was also given to the least rated statement, although the values were the lowest. The employees were rated positively in terms of training, although the lowest value was recorded in the statement “Employees are adequately trained.” (Mean = 4.07, SD = 0.89). This may be an area of possible improvement in the training of the employees. The training of the employees is very important in improving the understanding of the employees about the control measures. Improvement in this regard would further improve the control environment and hence the financial performance.

From the above analysis of the descriptive statistics, it can be concluded that the control environment is robust in nature and hence supports the effectiveness of the internal control practices. This is because the ethical leadership, organizational structure, control culture, and communication in the organization are very strong. These elements form the foundation for improving the financial performance.

4.5 Effect of Risk Assessment on Financial Performance

4.5.1 Descriptive Statistics

Table 4.7: Risk Assessment

Statement	Mean	Std. Deviation
Risks are regularly identified	4.26	0.77
Risk processes are documented	4.18	0.82
Procedures address financial risks	4.22	0.79
Risk assessment prevents losses	4.31	0.73
Risk team enhances performance	4.29	0.75
Supports lending decisions	4.24	0.81
Enhances profitability	4.35	0.70
Overall Mean	4.26	0.77

Table 4.9 shows the descriptive statistics concerning risk assessment practices and their contribution to organizational performance. From the results, it is evident that the overall level of agreement among the respondents concerning the effectiveness of risk assessment is high, given that the mean score is 4.26. This is an indication that risk assessment is deeply ingrained in the institution and is considered an essential component of prudent financial management. This is

supported by the low value of the standard deviation, which is an indication that all the respondents have a similar understanding of the importance of risk-related practices.

More specifically, the respondents strongly agreed about the risks being identified in the institution, with a high mean score of 4.26. This shows that the institution actively recognizes the risks involved in the operations of the business. This has significant implications for the decision-making process in the organization. The documentation of the processes involved in the risk assessment was also highly agreed upon by the respondents, with a mean score of 4.18. This shows that the institution has put in place mechanisms to guide the process of managing risks in the organization.

The findings from the respondents also show that the processes involved in managing financial risks in the organization were well established, as seen from the mean score of 4.22. This shows that the institution has put in place mechanisms to help in the mitigation of financial risks. The respondents were in agreement that the process of assessing risks was useful in the prevention of loss, with a mean score of 4.31.

In addition, the findings revealed that the presence of a dedicated team in risk assessment is beneficial to the organization in terms of performance, with the mean being 4.29. This is an indication that the input of experts in the process of risk assessment is vital in the overall performance of the organization. The aspect of risk assessment in lending decisions was also found to be beneficial in the organization, with the mean being 4.24. The implication is that the process of risk analysis is very vital in the enhancement of the quality of lending in the organization.

Finally, the highest mean of 4.35 was found in the aspect of the statement that risk assessment is beneficial in the enhancement of profitability in the organization. The implication is that the process of risk management is not only beneficial in the enhancement of the overall performance of the organization in terms of profit but is also vital in the enhancement of the overall sustainability of the organization.

4.6 Effect of Control Activities on Financial Performance

4.6.1 Descriptive Statistics

Table 4.8: Control Activities

Statement	Mean	Std. Deviation
Clear financial policies exist	4.34	0.73
Approvals before transactions	4.29	0.77
Records are regularly reconciled	4.26	0.80
Controls prevent fraud	4.37	0.69
Internal audits are conducted	4.32	0.74
Access is restricted	4.41	0.65
Monitoring enhances efficiency	4.28	0.78
Overall Mean	4.32	0.74

Table 4.12 shows the respondents' perception regarding control activities within the organization, and it is evident from the table that there is a high level of agreement among the respondents regarding all the statements. For instance, the overall mean is 4.32, and the standard deviation is 0.74, which is relatively low. This implies that control activities are well defined within the organization and are being implemented uniformly throughout the institution.

The study has shown that there are clear financial policies in place within the organization, as depicted by a high mean of 4.34. This implies that respondents are aware of the existence of well-defined financial policies within the organization, which guide the operations of the organization. It is in the best interest of an organization to have clear financial policies in order to enhance compliance with the same.

Likewise, the requirement for approvals prior to transactions recording was rated high with a mean of 4.29. This suggests that the process is stringently followed. This also reflects the presence of checks and balances to ensure that transactions are appropriately scrutinized and approved prior to processing. Regular reconciliation of records, with a mean rating of 4.26, also reflects a high commitment to accuracy and reliability in financial reporting. Regular reconciliation helps to identify errors and irregularities in a timely manner, thus providing adequate safeguards to the organization's resources.

Control activities in the area of fraud prevention and asset protection were rated the highest. For instance, the statement on the effectiveness of controls in preventing fraud recorded a high mean rating of 4.37. Likewise, the restricted access to the system and resources recorded the highest mean rating of 4.41. These high ratings reflect a high level of confidence on the part of the respondents in the organization's controls in the area of fraud prevention.

Additionally, internal audits are seen to have been carried out effectively, as shown by the high mean of 4.32. This implies that internal audit has played a significant role in reviewing compliance, evaluating the effectiveness of control measures, and recommending improvements. Monitoring activities have also been seen to have a positive effect on efficiency, as shown by the high mean of 4.28.

From the results shown in Table 4.12, it is evident that control activities are effective and have been implemented well. This is because the high means in all the indicators have shown minimal variability in the responses, implying that these control activities have played a significant role in improving efficiency, deterring fraud, and ensuring accurate reports, which have a positive effect on improving organizational efficiency.

4.7 Correlation Analysis of Internal Control Components and Financial Performance

Table 4.9: Correlation Matrix

Variables	Financial Performance	Control Environment	Risk Assessment	Control Activities
Financial Performance	1.000			
Control Environment	0.68	1.000		
Risk Assessment	0.72	0.64	1.000	
Control Activities	0.75	0.66	0.69	1.000

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

Source: Primary Data

The results in Table 4.9 above indicate a strong and positive correlation between internal control components and financial performance.

The control environment has a strong positive correlation with financial performance ($r = 0.68$). This means that organizations with high standards of ethics and effective structures in control are more likely to have enhanced financial performance. This is in line with the descriptive results that indicated ethics and transparency are essential for effective control and efficient use of resources.

Risk assessment has a strong positive correlation with financial performance ($r = 0.72$). This means that institutions are more likely to have enhanced financial performance if they are effective in identifying risks and taking measures to mitigate these risks. This means institutions are better placed to limit losses and therefore have enhanced performance.

Control activities have the strongest correlation with financial performance, where the correlation value was found to be 0.75. This suggests that effective control policies, approvals, reconciliations, audits, and access controls have a significant impact on financial performance.

The correlation results show that all three components of internal control have a positive impact on financial performance, thus justifying the inclusion of the three variables in the regression model.

4.8 Regression Analysis of Internal Controls and Financial Performance

Table 4.10: Model Summary (Regression Results)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.81	0.66	0.64	0.42

Source: Primary Data

From the regression analysis shown in Table 4.10, it is evident that the relationship between internal control systems and financial performance is very strong. This is supported by the R value, which is 0.81. This value indicates a very strong positive correlation between the independent variables and financial performance.

The R Square value is 0.66. This means that 66% of the variation in financial performance is due to the combined effect of the control environment, risk assessment, and control activities. This shows that internal control mechanisms have a significant impact on financial performance.

The Adjusted R Square value of 0.64, which takes into account the number of predictors used in the model, is still high. This shows that the model is robust and that there is no chance or luck involved in achieving these results. This also shows that internal controls are still strong predictors of financial performance even after adjusting for model complexity.

The remaining 34% can be explained as resulting from other factors not included in this particular study. These factors may include market conditions, management strategies, technology adoption, or economic factors.

The results have clearly shown that internal control systems have a significant impact on financial performance as a whole. This is because a good control environment will have leaders who are ethically sound and clear in terms of organizational structure. On the other hand, risk assessment will have a positive impact on reducing losses and will be used as a guide for informed decision-making. Finally, control activities will have a positive impact on compliance, fraud deterrence, and efficiency.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, discussion, conclusions, and recommendations of the research on the impact of internal controls on the financial performance of commercial banks. The research was carried out on Stanbic Bank Uganda. The findings of the research were discussed in Chapter Four in line with the objectives of the research. The objectives were concerned with the effects of the control environment, risk assessment, and control activities on financial performance. This chapter draws on the findings of the research and literature in the field.

5.2 Summary of findings

5.2.1 Control Environment and Financial Performance

The study found that the control environment is robust since respondents rated high the statements regarding ethical leadership, organizational culture and transparency, organizational structure, and communication regarding controls. On average, the respondents gave an overall mean rating of 4.23 with low SDs ($SD = 0.79$) for statements regarding management ethics, leadership tone, separation of duties, and transparency.

The correlation analysis found a high positive correlation between control environment and financial performance ($r = 0.681, p < 0.01$), and regression analysis found that control environment is a significant predictor of financial performance ($\beta = 0.462, p < 0.05$).

This implies that the effects of ethical leadership, accountability, and the compliance culture are significant in enhancing profitability, liquidity, and return on assets. The findings support the literature that suggests that the control environment is the foundation upon which an organization can establish an environment that is conducive for the effectiveness of internal control (COSO, 2013; Arif et al., 2019).

5.2.2 Risk Assessment and Financial Performance

The results of the descriptive analysis indicated a high level of agreement among the respondents on the importance of the role played by the bank in the financial performance, with a high mean value of 4.26 (SD = 0.77). For instance, the bank regularly identifies and documents the risks, has procedures to mitigate financial risks, and uses the process in decision-making, such as in lending. However, the highest value was recorded by the statement on the effect of the process on profitability (Mean = 4.35, SD = 0.70).

The correlation ($r = 0.724$) and regression analyses confirmed the positive effect of the process on financial performance ($\beta = 0.538$, $p < 0.001$). This confirms the literature on the importance of the process in the identification and management of financial threats, thereby enhancing profitability (Lemay et al., 2020; Al-Tamimi & Al-Mazrooei, 2007).

5.2.3 Control Activities and Financial Performance

Control activities received high rating from respondents with an average rating of 4.32 (S.D = 0.74). All statements regarding clear financial policies, approvals before transactions, prevention of fraud, limited access, and internal audits received high rating from respondents.

Results from correlation analysis ($r = 0.756$) and regression analysis ($\beta = 0.571$, $p < 0.001$) revealed that control activities have the highest impact on financial performance among all internal control activities. This is consistent with prior research that emphasized the importance of control activities, including segregation of duties, reconciliations, and monitoring, to directly contribute to accountability, prevention of fraud, and accurate financial reporting (COSO, 2013; Basuony, 2014).

5.3 Discussion of Findings

5.3.1 Control Environment

The results clearly show that ethical leadership, transparency, and organizational structure play an essential role in promoting financial performance. This supports the argument presented by COSO (2013) and Arif et al. (2019) that an effective control environment is the cornerstone of an effective internal control system. The study is also in line with other empirical studies indicating that when leaders practice what they preach, it is likely to improve staff compliance with procedures, thereby promoting operational efficiency and profitability (Albrecht et al., 2015).

The relatively lower mean score for staff training (Mean = 4.07) indicates that while the control environment is sound, investment in continuous staff training can improve staff competency.

5.3.2 Risk Assessment

The results point to the importance of risk assessment in financial stability and performance. By assessing and managing potential risk factors, the bank is able to mitigate potential losses. This is consistent with Lemay et al. (2020) and their assertion that effective risk assessment is a predictor of superior financial performance and sustainability. This research points to the importance of risk assessment in improving the bank's profitability and reducing potential financial losses.

5.3.3 Control Activities

The control activities have shown the strongest influence on the financial performance, which implies that control activities, including reconciliations, internal audits, fraud prevention, and access control, are at the heart of asset protection. This view is in line with COSO (2013) and Basuony (2014), which assert that control activities play a significant role in minimizing errors, fraud, and improving the quality of financial reports. This study confirms the assertion that control activities have a direct impact on liquidity, profitability, and efficiency in organizations.

5.4 Conclusions

Based on the study's findings, several conclusions can be made. Firstly, the control environment is crucial in determining commercial banks' financial performance. A conducive control environment marked by ethical leadership, organizational structures, and transparency has a significant impact on commercial banks' profitability. It is concluded in the study that for commercial banks to achieve growth in terms of profitability, it is essential for them to develop an ethical culture.

Secondly, risk assessment is crucial in improving commercial banks' financial performance. Risk assessment helps commercial banks in avoiding losses and thus improving their profitability. It is crucial for commercial banks to undertake risk assessment in order to improve their profitability.

Third, control activities were found to have the most significant impact on internal controls. This is because control activities have a direct impact on efficiency in operations, fraud deterrence, and financial reporting. Banks that have clearly defined control activities and maintain strict control mechanisms are those that attain high levels of financial performance.

Overall, therefore, the research shows that internal controls are vital for the financial performance of commercial banks. This is particularly true for control activities, which are closely followed by risk assessment and control environment.

5.5 Recommendations

From the findings of the study, recommendations have been proposed. Firstly, the bank can improve training for their staff by investing in continuous capacity building. This is important because the staff will be able to comprehend the control procedures better.

Secondly, the bank can improve ethical leadership by focusing on transparency and accountability. This can be achieved through workshops for the leaders and ethical performance evaluations.

Lastly, the bank can improve their risk management practice by institutionalizing it in all operations. This can be achieved by periodically reviewing the bank's risk identification and mitigation procedures, especially in lending and investment operations.

Fourthly, control activities would be optimized by continuous monitoring, reconciliations, and internal audits. Adoption of new technologies in financial management would further improve control activities and increase the efficiency of decision-making processes.

Lastly, a holistic approach to internal control would be recommended. This would involve a control environment, risk assessment, and control activities. These three components would function in synergy to ensure the best financial and operational performance.

5.6 Areas for Further Research

The study has identified several areas that call for further research. One is the impact of internal controls on non-financial performance indicators. This will help to achieve a holistic understanding of performance.

The other area is to explore the impact of adopting technology to build up internal control systems and their subsequent impact on financial performance. This will help to achieve a better understanding to ensure efficient ways are employed.

Conducting comparative studies with other commercial banks in Uganda is recommended to test the generalizability of the research and explore possible variations with other commercial banks.

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APPENDIX I

QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

QUESTIONNAIRE FOR STAFF OF STANBIC BANK UGANDA

I am Togatayo Mamela Loretta, a student at Uganda Christian University undertaking a research on “The Effect of Internal Controls on the Financial Performance of Commercial Banks,” with Stanbic Bank Uganda as a case study. This research is conducted as a requirement for the award of a Bachelor's degree in Business Administration at Uganda Christian University.

You are kindly requested to provide honest and accurate answers to the questions below. The information you provide will be treated with the highest level of confidentiality and used strictly for academic purposes.

Please tick (✓) the option that best represents your opinion or situation.

SECTION A: DEMOGRAPHIC INFORMATION

1. **Gender**

Male Female

2. **Age group**

21–30 years 31–40 years 41–50 years Above 50 years

3. **Marital status**

Single Married Widowed Divorced

4. **Education level**

Diploma Bachelor's degree Master's degree Others

(specify).....

5. **Department**

Finance Operations Audit Customer Service IT

Others (specify).....

6. **Length of service at Stanbic Bank**

0–5 years 6–10 years 11–15 years Above 15 years

SECTION B: THE EFFECT OF CONTROL ENVIRONMENT ON THE FINANCIAL PERFORMANCE OF STANBIC BANK

Please rate your level of agreement with the following statements using the scale:

5 = Strongly Agree, 4 = Agree, 3 = Not Sure, 2 = Disagree, 1 = Strongly Disagree

Statements	5	4	3	2	1
1. The management of Stanbic Bank demonstrates strong ethical values and integrity.					
2. The organizational structure clearly defines authority and accountability.					
3. The bank’s leadership sets a positive tone towards effective internal control practices.					
4. Management regularly communicates the importance of internal control to all employees.					
5. Employees are adequately trained to understand and implement internal control policies.					
6. The bank’s culture encourages transparency, honesty, and compliance with set procedures.					
7. There is a clear separation of duties among employees to prevent fraud and errors.					

SECTION C: THE EFFECT OF RISK ASSESSMENT ON THE FINANCIAL PERFORMANCE OF STANBIC BANK

Statements	5	4	3	2	1
1. The bank regularly identifies and evaluates potential risks that could affect its operations.					

2. Risk assessment processes are documented and updated regularly.					
3. The bank has established procedures to address identified financial risks.					
4. Risk assessment helps the bank to take timely actions that prevent losses.					
5. The bank’s risk management team plays a key role in enhancing financial performance.					
6. Risk assessment enables the bank to make informed lending and investment decisions.					
7. The bank’s risk mitigation strategies contribute to profitability and sustainability.					

SECTION D: THE EFFECT OF CONTROL ACTIVITIES ON THE FINANCIAL PERFORMANCE OF STANBIC BANK

Statements	5	4	3	2	1
1. The bank has clear policies and procedures that guide financial operations.					
2. Internal checks and approvals are conducted before any major financial transaction.					
3. All accounting records are verified and reconciled regularly to ensure accuracy.					
4. Control activities help prevent and detect fraud and financial misstatements.					
5. Regular internal audits are conducted to evaluate compliance with bank policies.					
6. Access to financial systems and records is restricted to authorized personnel only.					
7. Monitoring control activities enhances operational efficiency and reduces financial risks.					

SECTION E: FINANCIAL PERFORMANCE

Statements	5	4	3	2	1
A. Liquidity					

1. Effective internal controls ensure adequate cash flow for bank operations.					
2. Proper cash management practices enhance liquidity levels at the bank.					
3. The control system helps in timely collection of receivables and payment of liabilities.					
4. Strong internal controls reduce liquidity risks within the bank.					
B. Profitability					
5. Proper internal controls lead to cost efficiency and improved profitability.					
6. Financial audits enhance profit accountability and reduce operational losses.					
7. Effective budgeting and expenditure controls increase net income.					
C. Return on Assets (ROA)					
8. Internal control systems ensure efficient utilization of assets to generate income.					
9. Regular monitoring of asset performance leads to improved ROA.					
10. Proper internal controls minimize asset losses and improve overall bank performance.					

Thank you for your participation.

Your responses are highly valuable and will contribute greatly to the success of this research study.