INTERNAL CONTROLS AND FINANCIAL PERFORMANCE IN MICROFINANCE INSTITUTIONS IN UGANDA: A CASE STUDY OF TUJIJENGE FINANCIAL SERVICES LIMITED

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DECLARATION

I **AMAGORO CAROLINE of REG NO S23/MUC/BBA/053** declare that this research submitted to the faculty of Business Administration of Uganda Christian University is my original work and has never been submitted to any University for any kind of award.

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APPROVAL

This dissertation report has been done under my supervision as a University supervisor and is now ready for submission for examination with my approval to the Department of Business.

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DEDICATION

This dissertation report is dedicated to me for the endless efforts and continuous commitment towards the accomplishment of this research, Uncle Richard Odoki for the unending guidance, Mr. Owino Samson for the great supervision, my parents (Mother Tino Margret and father James Ariong), my elder sister Florence Apolot Patricia, my uncle Dan Opio and my good friend Solomon Khakha Womema for the great contribution they rendered to me in order to finally come up with this.

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LIST OF ACRONYMS

BA Branch Accountants

BM Branch managers

BOU Bank of Uganda

HR Human Resource

ICs Internal Controls

LO Loan Officers

RM Regional Managers

TFS Tujijenge

Financial Services Limited

ABSTRACT

This study investigates the relationship between internal controls and financial performance of microfinance institutions in Uganda a case of Tujijenge Financial Services Ltd. The study was guided by specific objectives which was to examine the effect of control environment on financial performance of microfinance institutions, to examine the effect of risk assessment on financial performance of microfinance institutions, to investigate the effect of monitoring activities on financial performance of microfinance institutions and to examine the effect of communication on financial performance of microfinance institutions specifically Tujijenge Financial Services Ltd. The researcher employed across sectional survey design to explore information from different stakeholders in selected microfinance institutions at a given point of time. A sample size of 100 respondents was considered for the study, selected by simple random sampling and purposive sampling techniques. Data was collected through primary sources using structured questionnaires and interviews.

Findings revealed that there is a strong relationship between internal controls and financial performance, as provided by ($r = .703$; sig. $<.05$). This suggests that variations in internal control systems are associated to variations in financial performance.

The study also established positive and significant relationships between risk management and financial performance ($r = .627$; sig. $<.05$), control activities and financial performance ($r = .604$; sig. $<.05$), control environment and financial performance ($r = .557$; sig. $<.05$), and monitoring controls and financial performance ($r = .595$; sig. $<.05$). The study shows that variations in all the dimensions of internal control are strongly associated to variations in financial performance. This shows that while each of the components of IC affected financial performance differently with a dominant influence evident in risk management, and least in control environment. The four components worked together and were complementary in realization of desired financial performance. Microfinance institutions like Tujijenge Financial Services Ltd need to be keen in adhering to each of these IC components, holistically.

Basing on these results, the researcher concludes that microfinance institutions that have strong internal control systems are likely to register strong financial performance. In real sense, if TFS focuses on enriching its ICs, the potentials of realizing positive financial performance scores, and meeting set targets, which was not the case by study time is possible. In addition to this, other factors having a strong bearing on the financial performance of Microfinance institutions should be explored by future research.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The study is on the relationship between internal controls and financial performance of microfinance institutions in Uganda as of Tujijenge Financial Services Ltd.

Over the years, the value of internal controls has gained relevance not only for financial prudence but also accountability and overall financial performance of organizations (Inusai and Abdulai, 2015). Rafindadi and Olanrewaju (2019) describe internal controls as precautionary measures in place to ensure appropriate record and management of activities done in the firm so in this regard, internal controls are part of the overall internal control system that encompasses control activities, control environment, risk assessment, monitoring and evaluation, information and communication (Magala, 2018). So many scholars (Inusah and Abdulai, 2015, Rafindadi and Olanrewaju, 2019, Younas and Kassim, 2019), have continued to reflect that firms pursue internal controls as a watchfog for financial performance. In the view of Pina, Bachiller, and Ripoll (2020), financial performance is an outcome realized by an organization after accomplishment of its set tasks. They are goals and objectives expressed in financial and non-financial outcomes, realized by an organization in a given period of time. Whereas almost all enterprises have focused on having appropriate internal controls, the majority have not used them to attain desired financial performance. The relationship between internal controls and financial performance remained less researched about especially for microfinance institutions. This was as well evident in Tujijenge Financial Services Ltd as expressed in this research study.

This chapter presents the background of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study, conceptual framework and definitions of key terms.

1.2 Background to the study

1.2.1 Historical background

In the world countries like USA, Germany among others, microfinance institute internal control systems as mechanisms intended to ensure that available resources are properly utilized to achieve the organizational objectives. The pronouncements of the Committee of Sponsoring Commercial banks and microfinance institutions (COSO) formed in 1985 offered the ideal internal control framework used in managements' assessment of the internal control environment in both public and private sectors to operate amidst several threats. It's upon management to adopt fitting controls to prevent and detect potential risks to its limited resources. Internal controls have been seen to be established in organizations to control the organizations as far as financial performance is involve. Historically, internal controls in organizations have existed from ancient times even in Hellenistic Egypt, there was a dual administration with a set of bureaucrats charged with collecting taxes. The concept of internal control was first officially defined in 1949 by the American Institute of Accountants. Since then, the definition and concept of internal controls has been the subject of debate (Petrovits, Shakespeare and Shih, 2011).

COSO (2017) expresses that internal controls are exercised in more developed countries like China and USA than in least developed countries, for example, African countries, Uganda being part these internal controls are a tool used by management to effectively run an entity. They help management through provision of reliable assurance over meeting the goals and objectives as it consists of specific policies and procedures towards achieving organizational goals and objectives. According to COSO, reasons for internal controls are to promote operational effectiveness and efficiency, reliable financial and administrative information, safe guard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The AMF working Group (2017) looked at the components of internal controls as being control activities, control environment, risk assessment, information and communication, monitoring and evaluation. Whereas internal controls are thought to be the duty of accountants and auditors, it is actually management that has the primary responsibility of proper controls.

As projects are crucial in successful economies in recent years in Uganda, projects failures have become a common practice due to poor internal controls adopted. However, empirical research demonstrated that pressure for controls from a multitude of external and internal stakeholders is on an increase to cause adequate service delivery. This has placed the management in a tough situation where they are now attempting to devise strategies that enable organizations to survive and prosper in turbulent environment that require financial performance and effective stakeholder’s responsiveness. Under such situations, difference between management and owners get thinner and the independence of non-executive directors become obscured.

Under the Internal Control-Integrated Framework designed by African countries like Nigeria, Ghana, Ethiopia among others, a widely used framework in not only the United States but around the world, internal control is broadly defined as a process that is effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance, (Tully, 2021). An internal control system is the process that an administrator uses to provide reasonable assurance that the unit's goals and objectives were or are achieved. It is the management of business risks and is a dynamic process that changes as personnel and circumstances change. The system includes organizational design, written policies and procedures, actual operating practices, physical barriers to protect assets and all personnel (Drey, 2019).

In Uganda, the system of internal control provides assurance to management of the dependability of the accounting data used in the decision making of the microfinance institution The organizational performance entails both financial and non-financial achievements realized by that institution in question (Johnson, 2019). Although the internal control system in Uganda is to be developed and monitored by the unit administrator, the Office of Internal Audit is available to assist in reviewing the internal control system and making suggestions for improvement and the internal control system provides for safeguarding of assets, proper recording of transactions and the efficient and effective accomplishment of the unit's goals and objectives (Gerber, 2019).

Tujijenge- finance Services was started due to the lucrative businesses that exist at the Ugandan boarder with Kenya to keep money for individual people or companies, exchange currencies, make loans and offer other financial services. The introduction of accounting technology in Tujijenge-finance Services has been tremendous with strong growth potential for the future and the advancements have taken the organization to many new levels of opportunities (2022 ,Microfinance performance report). In comparing and contrasting the changes that have occurred with the use of internal controls in Tujijenge Financial Services, across all the branches in Uganda.

Traditionally, microfinance lent to medium and large enterprises which are judged to be creditworthy and tend to avoid doing business with poor micro enterprises because of the associated costs and risks that were relatively high. Micro-finance institutions have therefore become the main source of funding for micro enterprises in Africa and in other developing regions (Magala, 2018). Internal control has five key components and for the sake of this study it was limited to control environment as major component. Control environment embraces all other four key components of internal control as it sets tone for the organization and also influences consciousness of its employees (COSO, 2017).

1.2.2 Theoretical Background

The study looked at Control theory, Agency theory and Stewardship theory to explore internal controls and its influence on financial performance of Microfinance Institutions.

Control Theory: The control theory has been described as an interdisciplinary branch of engineering and mathematics that deals with dynamic systems with inputs. The external input to the system is for reference and when one or more output variables of a system need to follow a certain reference over time, the controller manipulates the system to obtain the desired effect on output of the system (Vijayakumar and Nagaraja, 2012). The objective of this theory is to calculate the solution for proper collective action from the controller that results into system stability. The system sets the points and swing back and forward. According to the proponents of this theory, it works hand in hand with financial intermediation theory as put forth by Gurley and Shaw (1960) which based on the theory of informational asymmetry and agency theory (Laudon and Laudon, 2011). This theory was adopted because stakeholders in Microfinance institutions in Tujijenge Financial Services Ltd labour to calculate solutions for proper collective action from the controller in an attempt to attain system stability necessary for attaining financial performance of the microfinance institutions.

Agency Theory: In management and economics, the agency theory explains various relationships and areas of self-interest in institutions. The theory usually explains how best the organizations can organize relationships in which one party is the principal determiner of the work and the other party is the agent who performs/ makes decisions on behalf of the principal. Good auditing practices adopted by any organization usually enhance transparency in operations which project better financial performances (Snell, 2012). This is an assumption of agency theory which states that the agency cost leads to the design of audit practices that are applied by organizations to mitigate any agency problems that may arise. Due to limited room for solving problems, the decisions of internal audit affects stakeholders which in turn do not give up on conclusive results. Agency theory hypothesizes that in the modern corporations like microfinance institutions, ownership is widely shared, and managerial actions depart from those required to maximise shareholder returns (Mallin, 2017). This theory was adopted because from the theory perspective, non-executive directors and independent directors within Tujijenge Financial Services Ltd contribute to effective corporate governance by exercising control over senior manager's decision-making. After all, they are seen as the check and balance mechanism to enhance the board's effectiveness.

Stewardship Theory: According to Heentigala (2019), stewardship theory postulates that a steward protects and maximizes shareholders wealth through organization performance because by so doing the steward's utility functions are maximized. A steward compares with the agent in the agency theory where he is entrusted with the running of business on behalf of the owner. He prepares statements to show financial performance and position. He makes the decisions in managing the business to protect the interest of the owner. The sharp contrast between the two theories is on perception and attitude towards the job. In agency theory, an agent is solely aimed at financial benefits from the organization whereas in stewardship theory a steward derives motivation from his achievement (Brennan, 2012). The stewardship theory was adopted for this study because it strongly argues that managers and boards of directors are good stewards of a firm (keepers of internal controls) and they should be given utmost trust in their quest to attain performance.

The three theories are complementary in sense that the control theory aids stakeholders in microfinance institution in Tujijenge Financial Services Ltd to have detailed scope of their possible costs and how they influence performance as well as how the different actors (principal and agents) relates to implement goals of organization via the agency theory. In a related perspective, both the cost and agency theory are complementary to stewardship theory. Therefore, theories were complimentary in explaining the aspect of financial performance of microfinance institutions, defined by its relationship with internal controls in Tujijenge Financial Services Ltd.

1.2.3 Conceptual background

This study considered two variables that is the internal control systems and performance of microfinance institutions. This internal controls are defined as processes designed, maintained and implemented by those charged with governance, management and personnel to provide reasonable assurance about internal control systems primarily enhance reliability of financial performance, either directly or indirectly by increasing accountability among information providers in organizations (Jensen and Meckling, 2016). According to Endaya and Hanefah (2016) internal controls therefore have a much broader purpose in organization level. Internal controls provide an independent appraisal of quality of managerial performance in carrying out assigned responsibilities for better revenue generation. In this study, attention was given to relevant controls that are undertaken in financial institutions. These primarily included the collective and preventive internal controls. Generally, focus was on the internal controls like clear separation of roles, appropriation of supervision by senior staff on the work of their juniors, focus on the top to date internal control manuals for reference purposes, policies and procedures as well as safeguard of institutional assets by a corrective action and risk assessment. Effective internal control systems assist in formulation and implementation of quality procurement procedures that helps to factor justification for requisition at proper lead-time, quantity and at lowest price (Mihret, James and Mula, 2010). This boosts profitability than blind ordering which result into loss and waste.

Ahmad, Othman, Othman and Jusoff (2014) argued that it is very important for every section and department of an organization to have effective control systems which are involved in blocking organizations income from leakages and loopholes thereby supporting a sustained profitability, growth and other general corporate goals and objectives. Ouchi (2014) stated that internal controls must be able to achieve the objectives of bringing out corporation among people with divergent objectives in an organization. On the other hand, financial performance of an organization can be described in various forms such as return on assets, return on sales, return on equity, return on investments, return on capital employed and sales growth. Sarens and Abdolmohammadi (2011) observed that it is also a measure of the excess value a company has provided to its shareholders over total amount of their investments therefore, appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

This study focused on financial performance of microfinance institutions. Performance itself is the outcome realized by the organizations after accomplition of their set tasks. They are goals and objectives expressed in financial and non-financial outcomes, realized by an organization in a given period of time (Pina et al, 2020). In regard to microfinance institutions, financial performance is a term used in relation to capacity of a financial institution to generate sustainable profitability. For any financial institution to be successful in its operations, managers must weigh complex trade-offs between growth return and risk, favouring the adoption of risk-adjusted metrics (Albertazzi and Gambacorta, 2011). According to Agbada and Osuji (2013), the return on assets (ROA) is a key proxy measure frequently used in the literature of financial institution performance and reflects management's ability and efficiency to utilize institutions financial and real investment resources to generate profits. The author further indicated that ROA depends on the institutions policy decisions as well as on uncontrollable factors relating to economy and government regulations. Financial performance is the degree to which financial objectives of an institution are accomplished. Financial performance measure results of an institution is in monetary terms so therefore institutions put in place best financial and non-financial structures in place to have competitive over their competitors. On the other hand, Amalendu and Sri (2011) showed that poor financial performance of an institution affect its attraction to would be investors which lead it to insolvency and eventual collapse. Financial performance is the measurement of how a business entity has utilized its resources to generate revenues. Financial performance is normally measured by ratios which are the gearing ratios, profitability ratios, and the Liquidity ratios (Piper, 2010). Alfred (2017) also indicated that profitability ratios of any business entity portray the picture of how well the entity has employed resources efficiently, liquidity ratios deal with business entities to accomplish short-term obligations and their gearing ratios indicate the extent of debt employment of the institutions.

1.2.4 Contextual background

This study was conducted in a microfinance institution; Tujijenge Financial Services Ltd. Tujijenge Financial Services Ltd has branches in different parts of Eastern Uganda which are struggling financially despite embracing the right internal control systems (Microfinance Support Centre, 2020). As a result these branches have failed to meet their meet their target objectives and their liquidity, profitability and their sales volume has remained negative. The regularity of fraud and misappropriation of funds is creating fear, anxiety and loss of confidence in the minds of customers of Tujijenge Financial Services Ltd. Even though Tujijenge Financial Services Ltd has helped in eradicating poverty, quite a number of its operations have been affected and attributed this to lack of sustainability despite embracing internal controls especially the non-deposit taking institutions that are not regulated by the Central bank (Amulo and Inanga, 2019).

Tujijenge Financial Services Ltd is a financial institution that provides mode of finances designed to provide low-income individuals with means to become self-sufficient. Tujienge Financial

Services Ltd issues small loans to marginalize from normal modes of finance with the intention of helping the poor to prosper through allowing them to save and borrow money (Adongo and Stork, 2015).

In an African context, Aihounhim et al. (2016) argued that the importance of internal controls was perhaps highlighted by introduction of Structural Adjustments Programmes recommended by International Monetary Fund (IMF). The internal controls with African economies focused on control mechanisms aimed at stabilizing fiscal policy and environment. SAPs in Uganda commenced in 1987, in other African developing countries such as Nigeria, a study by Rafindadi and Olanrewaju (2019) revealed that corporate institutions with established well-functioning internal control system actualized their goals and enhanced sustainable management in harmony with the stakeholder's interests.

According to Magala (2018), internal controls help to ensure that planned activities are achieved as per set objectives in terms of realizing the desired service delivery needed by institutions policy thus financial performance stature. Internal controls lead to efficiency in utilization of institutions resources. Also according to Andrew (2018), microfinance institutions in Uganda have contributed to poverty eradication in rural areas through giving loans with or no collateral security like motorcycle loans which affected the financial performance of the institution because most people end up not paying the loans back. It was against this background that prompted the researcher to investigate the relationship between internal controls and financial performance of Tujijenge Financial Services Ltd in Uganda

1.3 Statement of the problem

Microfinance institutions (MFIs) play a vital role in providing financial services to underserved communities worldwide. However they face unique challenges that can impact their financial performance and sustainability. One of the key challenges microfinance institutions face is maintaining effective internal controls which are essential for managing risks, preventing fraud and ensuring financial stability.

Despite the importance of internal controls, Tujijenge Financial Services Ltd still struggles to implement and maintain effective controls which has now led to financial losses, reputation damage due to liquidity challenges and regulatory non-compliance (Audit Report 2022)

A sound internal control system helps in safeguarding a firm’s assets, proper recording of transactions and the efficient and effective accomplishment of the organization’s goals and objectives. Poor Financial performance in Tujijenge Financial Services Ltd occurs with higher rate of recurrence. Despite the benefits of internal controls to the management of fraud in Tujijenge Financial Services Ltd, the top management in Tujijenge Financial Services Ltd still experiences a lot of financial challenges despite embracing internal control. (Tujijenge Financial Services Ltd annual performance report, 2021).

Besides, a lot has been done at all branches including introducing field receipts, proper assessments on loan documents, internal and external audits but the financial performance of the institution is still a challenge. Hence, there was need to investigate the relationship between internal controls and financial performance services in Tujijenge Financial Services Ltd including understanding the impact, identifying the key control factors and developing effective control systems .This therefore has prompted the researcher to conduct investigation on the relationship between internal controls and financial performance at Tujijenge Financial Services Ltd

1.4 Objectives of the study

1.4.1 General Objective

This study aims to explore the relationship between internal controls and financial performance in microfinance institutions (TFS) with a focus on identifying best practices and areas of improvement.

1.4.2 Specific Objectives

i. To examine the effect of risk assessment on financial performance in Tujijenge Financial Services Ltd

ii. To effect Monitoring activities on financial performance in Tujijenge Financial Services Ltd.

iii. To assess the effect of Control environment on financial sustainability and outreach activities in Tujijenge Financial Serviced Ltd

iv. To assess the effect of Control activities on financial sustainability and outreach activities in Tujijenge Financial Serviced Ltd

1.5 Hypothesis

I. Ho1.Risk assessment has a significant positive effect on financial performance in Tujijenge Financial Services Ltd

II. Ho2.Control activities has a significant positive effect on financial performance in Tujijenge Financial Services Ltd

III. Ho3.Control environment has a significant positive effect on financial performance in Tujijenge Financial Services Ltd

IV. Ho4: Monitoring has a significant positive effect on financial performance in Tujijenge Financial Services Ltd

1.6 Scope of the Study

1.6.1 Subject or content scope

The content scope focused on the effect of internal controls on financial performance in microfinance institutions with a focus on Tujijenge Financial Services Ltd. It examines the internal controls put in place, analyze the financial performance indicators like profitability, efficiency and sustainability and investigate risk management practices and their impact on financial performance.

1.6.2 Time Scope

This research was conducted to explore information that falls within period of 2021 - 2024. It is within this period (2021 to 2024) that KMC had strengthened its ICS, and also experienced worrying trends of financial performance. This enabled the researcher to gather adequate and up-to-date information for the study.

1.6.3 Geographical Scope

This study was done at Tujijenge Financial Services Ltd in Mbale district, Eastern Uganda. Tujijenge Financial Services Ltd has five branches in- Bukedea, Soroti, Busia, Namayingo and Mbale. Tujijenge Financial Services Ltd Mbale is where the head office and they oversee the activities of other branches. Tujijenge Financial Services is located at Nkokonjeru 2.5kms from Mbale city.

1.7 Conceptual framework

The conceptual framework explores the relationship between internal controls and financial performance. The internal controls were measured by risk assessment, control environment, control activities, information and communication, monitoring activities and corporate governance and the financial performance of the microfinance institutions were measured by liquidity, profitability, asset accumulation and portfolio quality.

INTERNAL CONTROLS

Independent Variables

- Risk assessment
- Monitoring activities
- Information and communication
- Control environment
- Control activities

PERFORMANCE OF MFIs

Dependent Variable

- Liquidity
- Profitability
- Asset accumulation
- Portfolio quality

Figure 1: Conceptual Framework

Source: COSO, (2013) and modified by the researcher (2025)

In the conceptual framework above, internal control systems are an adequate variable (measured by control environment, risk assessment, monitoring activities and communication) and is hypothesized to affect performance of microfinance institutions. Performance of MFIs is dependent variable measured by Liquidity, profitability, portfolio quality and asset accumulation.

1.8 Significance of the Study

The result of this study is to help Tujijenge Financial Services Ltd identify areas to strengthen internal controls which can lead to improved financial performance. The study will as well provide insights into effective risk management enabling Tujijenge Financial Services Ltd to mitigate risks and enhance financial sustainability.

The study aims at contributing to the development of the best internal controls for microfinance institutions in Uganda and beyond. This study is as well to inform regulatory bodies on the effectiveness of current regulations and areas of improvement and to provide stakeholders including investors and clients with assurance that Tujijenge Financial Services Ltd has effective internal controls in place.

1.9 Justification of the study

Microfinance institutions like Tujijenge Financial Services Ltd play a vital role in providing financial services to underserved communities making their financial sustainability crucial. Weak internal controls can lead to financial losses, reputation damage and regulatory non-compliance which can have severe consequences for microfinance institutions. However, there may be limited research on internal controls and financial performance in microfinance institutions which makes this research study viable and valuable in contributing to financial performance in microfinances in Uganda.

Tujijenge Financial Services Ltd like many institutions faces challenges in maintaining effective internal controls which has continually impacted on their financial performance however by identifying the areas of improvement, this study can help TFS strengthen their internal controls to enhance financial performance and better serve their clients

1.10 Definition of key terms

Compliance: Compliance refers to the act of adhering to laws, regulations, standards and policies that govern an organizations operations. It involves ensuring that the organization is meeting all relevant requirements and avoiding any actions that could result in non-compliance.

Audit: Audit is an independent examination of an organizations financial statements, internal controls and operations to ensure that they are accurate reliable, and compliant with relevant laws and regulations. Audits can be conducted by internal auditors or external auditors and they provide stakeholders with assurance about the organizations financial reporting and internal controls.

Control environment: The control environment refers to the tone set by an organizations leadership and the culture that permeates the organization. It encompasses the values, ethics and attitudes that influence the behaviour of the employees and the overall control consciousness of the organization.

Monitoring activities: Monitoring activities refer to the ongoing processed and procedures used to ensure that internal controls are operating effectively over time. This includes regular reviews, audits and assessments to identify areas for improvements and ensure that internal controls remain relevant and effective.

Risk assessment: Risk assessment is the process of identifying, analysing and evaluating potential risks that could impact an organizations ability to achieve its objectives. It involves determining the likelihood and potential impact of risks, and developing strategies to mitigate or manage them.

Internal controls: Internal controls refer to the policies, procedures and processes implemented by an organization to ensure accuracy, completeness and reliability of financial reporting, promote accountability and prevent fraud. Internal controls help organizations achieve their objectives by managing risks and ensuring efficient operations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter includes the review of literature relating to the relationship between internal controls and financial performance of microfinance institutions. This chapter presents the theoretical, conceptual and empirical review of related studies that explore internal controls and financial performance concepts. The review further focused on the contextual and methodological gaps that existed in these studies, presented in line with study objectives. Specifically, the literature is arranged as: theoretical review of theories pinning the study, conceptual review, and a review of related studies about the relationship between: risk assessment, control activities, control environment, as well as monitoring aspects of the ICs and financial performance.

2.2 Theoretical Review

The study was guided by the Agency theory and contingency theories.

2.2.1 The Principal Agency theory

The Agency theory draws significantly on the relationship between various actors in management of resources to realize results (Jensen & Mekling, 1977; Sarens & Abdolmohammadi, 2010). The Agency theory postulated relationship challenges between principals and agents of principals. Agents assign full powers and responsibilities to principals to act in their interest. The principal serve the interest of agent and perform to the fulfillment of the agent’s goals. The Agency theory explains that an agent performs services and makes decisions for and on behalf the principal (Hull & Dawar, 2014).

This theory holds several assumptions including the view that both parties keep and execute their roles as defined by relationship to maximize the good of an organization. Each has interests, but interests of firm supersedes the party’s interests. This shapes formal relationships like- budget management, control of staff and implementation of pre-set procedures like ICs of a firm. According to the agency theory, information is considered a commodity that must be given a monetary value and must be bought. The formal systems such as budgeting, management by objectives and boards of directors in this relation of the principal-agent act as informal systems such as managerial supervision. The implication is that organizations can invest in systems in order to control agent opportunism. Informal institutions such as board of directors in organizations enhance managerial supervision.

Given the current study, public at large, empower management and administration at local governments to provide goods and services for common good. Local governments must institute control mechanisms to avert fraud and resource misappropriation which would be used for the production of goods and services for the public. However, local governments fail to monitor public resources, diverting them to personal gains and interests beyond the public. The theory proposes that control mechanisms can minimize resource misuse by local governments, which solve the agent-principal problems. When the principal has full information on the performance of the entity, agency problems are likely to be reduced (Shapiro, 2005). Related studies have also used the Agency theory and found it aligning with their organizational performance (Gomes Mejia, Larraza – Kintana & Makri, 2003; Schulze, Lubatkin & Dino, 2013). This has made it one of the widely used theory in exploring business performance, where there is a delegatory role in managing resources like as it is for this study. Where the public delegates their role to financial controllers to implement the needs of the ICs, the theory however has attracted some criticisms like the desired outcomes may not necessarily be realized in absence of desired resources as defined in structural and operational environment. More so, it may not always be possible to attain a cordial relationship without exploration of the situation and circumstances in which these actors operate. Hence, the agency theory does not give detail on these aspects, yet vital for exploring the effect of ICs on financial performance. Thus, this study complemented agency theory with the contingency theory.

2.2.2 Contingency theory

The contingency theory is an organizational theory proposed by Fiedler in 1960, and this was propagated in line with the process of making financial decisions. The contingency theory proposes that organizational behavior which finally defines its performance is driven by contingency factors, and how these factors are managed. These contingent factors include technology, culture, management, functions of the organization, and matching roles between employees, organizational structure and its information system (Wang & Hooper, 2017). The contingency theory assumes that different organizations have different types of organizational structure. The theory assumes that it's the way managers steer effectiveness in managing behaviors, actions, and processes of organization depending on contingent of circumstances at hand. Financial performance in itself is a function of organizational structure and dependent on a contingency of several factors. Therefore, organizations should rightly apply different organizational structure variables to organizational effectiveness to realize performance outputs (Cowgill, 2014).

Contingency theory is used to describe relationships between the context and structure of internal control effectiveness and organizational performance and as such vital for defining the financial performance and reporting standards. Empirical study suggests that Auditors and financial controllers are specialized and higher in control environment ability will achieve ICs effectiveness. The firm benefits from the organizational effectiveness via internal control mechanism efficiency (Cadez & Guilding, 2008). In regard to this study, contingency theory explains more on how circumstances in the ICs should be given due attention by managers since they can be contingent factors for its financial performance in both short and long run. However, the contingency theory does not show the actors their roles and relationships in realizing the desired financial performance. This call for the need to adapt the agency theory as well and internal controls can also be well described in the context of Agency and contingency theories. Several attributes such as control activities, risk assessment, control environment, and other ICs aspect and how these can be contingent in influencing financial performance are well covered by these two theories. In light of the above description, it is appropriate to refer to these theories in exploring the effect of ICs on performance Coined together the two theories that explain the effects of ICs on financial performance at Tujijenge Financial Services Ltd.

2.3 Conceptual Review

2.3.1 Risk assessment

Risk assessment remains one of the key activities in the ICs, and how the company deals with this is critical for its effectiveness in its functions and operations (COSO, 2013). Several scholars have defined risk assessment in forecasting, identifying and analyzing the possible risks that may occur in a company (COSO, 2013; Ndifon & Ejom, 2015). Indeed, proper risk assessment is a prerequisite for achieving the right scope of managing physical and financial resources. Often studies concur that appropriate risk assessment critically evaluates the risks, makes it possible for the company meets its goals (Petrovits et al. 2011; Rafindadi et al. 2019). These aspects are underscored in line with managerial decisions and control of resources.

Relatedly, Chan, Chen and Liu (2020) noted that risks threaten the accomplishment of objectives and when not well assessed, can affect performance of organization especially in its finances at whatever levels, management must not only identify, but also control and regulate risks and give the appropriate way forward to meet the study objectives. Additionally, Mohammed and Aksoy (2020) also revealed that organizations must analyze such circumstances with likelihood to decrease the occurrence of risks. However, both Chan et al (2020), and Mohammed & Aksoy (2020), did not focus on the public sector. Earlier, Bett and Memba (2017) had also agreed that risk Assessment minimizes the impact of a risk; however, their findings could not address it in private sector context. This made it vital to base on these descriptions to explore risk assessment in ICs and how it influences financial performance of the organization, from the microfinance institutions.

2.3.2 Control activities

The COSO framework (2013); Mwanda (2008); and Mohammed & Aksoy (2020) described control activities as the policies and procedures that help ensure management directives are carried out. These studies continue to show clearly that control activities are key in ICs while addressing risks, and prompting financial controllers to explore firm's entity objectives. However, Mohammed and Aksoy (2020), showed that control activities are instrumental in functioning of the organization as a whole. Rafindadi et al (2019) and Weickgenannt, Hermanson and Sharma (2021) recounted that proper control activities are those which steer up not only financial effectiveness but also performance of the company in physical and financial resources. These studies, Rafindadi et al. (2019) and later Weickgenannt et al. (2021), agreed that proper implementation of control activities is key for ICs and could also be pronounced contingent factors for effective financial performance. This however had not been explored especially for Tujijenge Financial Services Ltd, and attracted attention for the researcher in this study. Specifically, the researcher explored employee performance review, physical controls and segregation of duties at TFS as part of ICs and this was vital for enhancing financial performance of the entity.

2.3.3 Control environment

Control environment is unavoidable practice, and one of the leading pillars in describing internal controls in any organization. Expressing this, Younas and Kassim (2019) noted that control environment is a key for steering financial performance. Ndifon and Ejom (2015) and Petrovits et al. (2011) also expressed the perspective that control environment is core ICs aspect that explores the scope, effectiveness and abilities to enhance a company's competence, ethical values, integrity, and people's morale in an organization as in the course of undertaking internal controls as a mandate. In a study by Eton et al. (2018), Control environment is explained as a core function which organizations cannot do without if they are to harmonize their ICs to fit in the organizational structure and accountability relationships that prevails among financial control Actors.

Meanwhile, these key factors in the control environment focuses on demonstrating the extent to which managers and staff are committed to integrity and ethical values while doing their mandatory work (Kinyua, Gakure, Gekara & Orwa, 2015). Control environment is the control conscience of an organization in which people conducts their activities and carry out their control responsibilities (Millichamp, 2008). It is an environment set in place for competent people to understand their responsibilities and set limits to their authority. Control environment embodies people that are knowledgeable, mindful and committed to doing what is right and doing it the right way (CPA Study Kit, 2016). As expressed by Kinyua et al. (2015), internal control environment supports management to keep to the principal of exercising oversight responsibility; ensuring that established management are able to delegate their authority and responsibility top juniors, management and staff demonstrate a high level of commitment to competence and accountability of their mandate (Younas & Kassim, 2019).

2.3.4 Monitoring

Monitoring activities assess quality and performance of an organization. Proper monitoring activities facilitate the process and act as notes for reference when providing accountability for the resources at their display (Ishungisa, 2013; Sunil & Binsheng, 2017; Visser & Erasmus, 2018). Monitoring of IC activities is vital in not only guiding employees, but also shaping their company's operations. Monitoring is key for supporting supervisory role of management, steering external audit, and prompting evaluations for effective achievement of a firm's financial objectives. ICs direct activities and performance of staff members to enhance organizational financial performance.

Relatedly, Chandra (2016) considers that monitoring is a critical mechanism for keeping staff at guard in ensuring that all physical and financial resources are effectively monitored, and how it steers financial performance. Studies on ICS, has considered that monitoring is an iterant function of the management, which streamlines the performance of employees and company at large. In this study, monitoring of ICS focused on supervision, external audit and evaluations of activities of TFS, and how these affects its financial performance.

2.3.5 Financial performance

Financial performance is the extent to which a business maintains a stable staff within a stable financial state over. In other words, it brings out the ability of the staff to maintain a stable business over time (Mayne & Zapico-Goni, 2007). However, Visser and Erasmus (2018) noted that financial performance varies between profit and non-profit organizations. Financial performance is critical, and often a prime measure of a firm's performance (Sontag-Padilla, Staplefoote & Gonzalez, 2012). Studies continue to show that financial performance is critical in shaping an ethical imperative microfinance institutions, as well as a key feature of giving landscape (Sontag-Padilla et al. 2012; Mayne & Zapico-Goni, 2007; Visse &Erasmus, 2018). In this context, financial performance was explored on perspectives of: accountability, transparency and reporting exhibited in their performance.

In microfinance institutions like TFS, financial performance is an engine to demonstrate accountability potentials of financial controllers, and value-for-money by the entity. Indeed, financial performance often depicted in financial reporting, accounting for financial resources allocated to different service and administrative units. Relatedly, Sarens and De Beelde (2016) revealed that financial performance is key in shaping the resource management of the company. Pina, Bachiller and Ripoll (2020) shows that organizations must ensure they have adequate resources to fund their business motives continually. A recent study by Duncan (2020) showed that financial performance is vital for supporting overall performance of the institution as it develops its short-term and long term goals. This study explored the effect of ICs on financial performance of Tujijenge Financial Services Ltd.

2.4 Empirical review of related literature

2.4.1 Risk assessment and financial performance

Risk assessment helps an organization to eliminate sources that may potentially harm operations of the company and save the danger of uncontrolled risk-taking (COSO, 2013). A related study by Chandra (2016) showed that risk assessment in any business to eliminate any risks is a key aspect of a sound ICs. Ntongo (2012) had earlier in her study revealed that risk assessment is critical for financial performance as it shapes the extent to which employees respond to risk; transfer, tolerance, treatment and termination. Related studies especially Sarens & De Beelde (2016), further showed that proper risk assessment is vital for financial performance although they explored the private and not public sector. This provided room for the researcher to explore these aspects at Tujijenge Financial Services Mbale District.

A study by Kinyua et al. (2015) noted that risk assessment helps organizations to identify risks that might otherwise prevent firms from operating outside acceptable standards (Kipkemboi, Ayuma &Terer, 2016). Besides the use of systematic procedures to identify and analyze relevant risks and management of risks, this is core in shaping financial performance activities in any institution (Inusah et al. 2015). Additionally, Magara (2013) noted that risk assessment regulates the occurrence of credit fraud in an organization. These findings show that risk assessment as part of the ICs are key for financial performance of an organization, but do not give a direct reflection of the Ugandan perspective, which this current study addresses from the context of Tujijenge Financial Services Ltd

Schulze et al (2013) revealed risk assessment is a key in identifying, evaluating and mitigating risks. Most organizations operate amidst scarce resource. These can be protected from waste with full implementation of risk assessment (Ntongo, 2012; Magara, 2013). Relatedly, studies on financial performance further showed that risk assessment is key for reducing risks, controlling failure and harnessing financial performance (Sarens & De Beelde, 2016; Morgan, 2016). More so, Verstegen (2010) noted the importance of risk assessment in defining the methodology adopted for any audit function influenced financial performance levels. However, these studies did not give the scope of public sector firms especially in a Ugandan setting. Similarly, Magara (2013) revealed that risk assessment shapes organizational financial performance, by controlling uncertainties and meeting its audit activities.

COSO recommends that once a risk has been identified, performing a complete analysis is needed to prioritize the risk. A complete analysis in this case, estimates potential impact of the risk and its likelihood to occur (Anh et al. 2020). It was therefore important to prioritize the risk to allow for its management in case it has occurred, control of its effects from spilling over. In addition, also included is the determination of how to manage risk. Setting priorities is one of the ways that enable organization to focus on risks with reasonable likelihood of occurrence and higher effects (Sharma & Senan, 2019). Regardless of the size of the organization and extent of risk assessment, all organizations need control activities in their functions.

Risk materials should be reorganized continually before they affect company's goals. Management must ensure that the materials that serve as basis for assessing the risk cover the entire organization (Bayyoud, Mohammed & Sayyad, 2015). Relatedly, Schulze et al. (2013) noted that risk assessment is one of the key arenas for shaping financial performance of the company, in the short and long run. The COSO framework (2013), also showed that risk assessment through its risk identification and analysis is vital for shaping the company's way of progress. While several of these studies especially Schulze et al. (2013), risk assessment is a key aspect of IC for purposes of managing proper resources, procedures and policies, and how these have a bearing on the operations of the organization.

On the contrary, some studies have not directly supported the argument that risk assessment can single handedly steer financial performance. For instance Grondys, Slusarczyk, Husain and Androniceanu (2021), revealed that some risks can be outbreaks and not easy to predict, and while Schulze et al. (2013), had also revealed that risks are possible to mitigate, when the firm has the right staff. Additionally, the study of Onsongo, Muathe and Mwangi (2020) also revealed that depending on risks, some risks taken may have positive results, while others plunge the firm into negative outcomes. As a result, and premising on above studies, it's not that all firms that uphold risk assessment directly attain commendable financial performance results. Nevertheless, earlier studies including (Anh et al. 2020; Sarens & De Beelde, 2016 and Sharma & Senan, 2019), continue to provide an affirmative perspective as in regards to the effect of risk assessment on financial performance. This presents a two-fold perspective of risk assessments' effect on financial performance. It’s this divide in describing the effect of risk assessment on financial performance that this study sought to close, by exploring risk assessment activities at TFS, in Mbale District.

2.4.2 Control activities and financial performance

Just like risk assessment, control activities are important at all levels of an organization. A study by Petrovits et al. (2011), noted that control activities involves procedures, policies, programs, strategies and instructions that guide management to achieve their organizational objectives. Relatedly, as cited by Schulze et al. (2013), control activities being procedures direct management on course of action, and often is key for streamlining financial performance. A recent study by Rafindadi and Olanrewaju (2019) revealed that control activities yield better, timely and well managed risk assessments, consequently shaping financial performance. Similar studies especially Whittington & Pany (2016), shows that better control activities especially through performance reviews, forecasts, period performance, physical controls and segregation of duties influence financial performance of the company. This points out a strong positive link between control activities and financial performance of a firm. However, when not well adhered to, they cease to become routine activities, but measures upon which prompt resource utilization can be checked (Katushabe, 2016). Indeed, Henk (2020) later revealed out that due to our institutional embeddedness, internal control activities may not be adhered to by all staff in the organization. Some officials take advantage of their positions to flow in adherence to control activities by utilizing loopholes in the system or their due influence on low staff in the firm. Whenever, this occurs, it affects financial performance negatively. In general, these studies show a mixed inference as regards to control activities and its effect on financial performance, which this current study sought to be examined using Tujijenge Financial Services Ltd, in Mbale district.

According to Papadatou (2015), especially when the control activities engage the use of the ICT, provides organisational and functional performance levels. Control activities help management in verification of records, and safeguarding of organizational assets. A related study by Visser & Erasmus (2018) showed that depending on the type of control activity done, scope and level of financial performance tend to vary positively. Muraleetharan (2013) also reported that control activities within ICS, is core for shaping financial performance achievements in the organization. A significant link between internal control activities and financial performance is also expressed in several other studies (Kibati e*t al*. 2015; Mawanda, 2008). However, these studies did not focus on the public sector but dominantly in financial and education institutions. To further explore this perspective at length, this study focused on control activities, and their effects on financial performance at Tujijenge Financial Services Ltd.

Tunji (2013) openes that physical security of physical and non-physical property is very important. The use of passwords to enforce information security should be implemented to minimize unauthorized logins. Relatedly, Bukenya and Kinatta (2012) noted that proper physical control improves financial performance by safeguarding vulnerable assets while Chiezey and Agbo (2013) and Katnic (2011) shows that control activities eliminate the occurrence of fraud in the organization. Most of these studies focused on private firms but did not specifically address it to financial performance. Besides the scope of TFS was not explored and this motivated the researcher to carry out this study. Chukwu (2012) later established that internal control system supports financial management, especially through proper checks and balances over the organization's funds and assets (Bukenya & Kinatta, 2012). However, these studies especially Bukenya & Kinatta (2012), and Chukwu (2012), did not relate their observations to financial performance and the scope of Tujijenge Financial Services Ltd had not been explored. This motivated the researcher to explore more on the effects of control activities on financial performance from the context of Tujijenge Financial Services Ltd in Uganda.

2.4.3 Control environment and financial performance

Control environment is a component of IC that has been extensively covered in several empirical studies, often simply put as a control conscience of an organisation (Millichamp, 2008). In the study of Abuya (2017), internal control environment sets a working atmosphere under which activities and responsibilities are affected by different employees in an organization. Millichamp resonated that an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful and committed to doing what is right and doing it the right way (Millichamp, 2008). These two studies agree that control environment is critical for organization's ICs, and its several activities including steering financial performance. However, these studies did not draw their experiences from Uganda, which motivated this current study.

A study by Inusah and Abdulai (2015) showed that control environment includes management's philosophy and operating style, integrity, ethical values, assignment of authority and responsibility (accountability), human resource practices (training, performance appraisal, remuneration, compensation and employee counseling), audit committee and internal audit.
These constituted and complemented the effectiveness of ICs of a firm, from which it based to improve its operations. Delimiting it to financial performance, Magara revealed that the internal control environment streamline financial roles and activities and specifically sets in a clear description of budgetary controls, an effective audit of staff activities and also parameters of financial excellence (Magara, 2013). This study indirectly showed that internal control environment has an effect on financial performance. However, not all organizations realize this perspective held by Magara (2013), and this motivated the researcher to undertake this current study.

Control environment is in some cases observed intrinsically as part of the overall organization's management structure, and so may have little effect on financial performance as an independent entity (Muraleetharan, 2013). Relatedly, in a study done in Kenya, Muhunyo (2018) revealed that in some cases especially in public institutions of learning the control environment especially where human resource policies and authority are not well controlled and exercised respectively. Like it would be the case of TFS, while the entity is independent, some of its control environment is shaped by the central government's policies, and as a result their implementation in the local context may have worrying negative outcomes on the overall ICs and financial performance at large. Focusing on control environment as a single element of IC in steering financial performance may also have negative outcomes to the performance of the organization and management (Abuya, 2021). However, their findings may also not be conclusive for all firms and entities. As a result, the researcher was motivated to explore the same perspectives regarding control environment from the context of Tujijenge Financial Services Ltd.

According to Ntongo (2022), Control environment sets the tone for organization, influencing consciousness of its people. It is the foundation for components of IC and consciousness of the organization/members to conduct their activities and responsibilities as per laid down objectives (Ntongo, 2012). Relatedly, Millichamp (2008) revealed that an effective control environment in an organization is a mechanism for the management to support and put in place competent people who understand their responsibilities, authority and are knowledgeable, mindful and committed to doing what is right and doing it in a right way, is industrious for effective financial achievements. Complementary to Ntongo and Millichamp, are views from Kinyua et al; (2015) that control environment and financial performance are associated. These works emphasize that for better financial performance, firms must enrich their internal control environments. Needless to say, however, is that they did not draw this conclusive standpoint from the context of microfinance finance institutions in Uganda which this study addressed from TFS.

According to Whittington & Pany (2016) internal control environment sets tone of organization linking professionalism to integrity, ensuring that people do only that which is expected from them and are committed to following an organization's policies and procedures. Staff is expected to perform their assigned duties competently, and within the organizational structure commitments (Inusah & Abdulai, 2015), also use this to generate credible financial outcomes by strengthening commitment, providing feedback to junior officers and reducing fraud and flaws (Abuya, 2017).

A study done by Kamau (2014), revealed that control environment helps to ascertain a great degree of integrity in roles execution, and upholding ethical values in management decisions. In the financial perspective, control environment directs and prevents financial performance flaws (Ntongo, 2021). However, these significant findings were not directly drawn from private sector financial related activities, and more specifically those of TFS. This left an information gap. Often, control environment is connected to adherence to ethical and behavioral standards (COSO, 2023). All these subsequently influence financial outcomes and helps managers to put in place control alternatives to financial challenges. COSO (2013) hence redefines effect of internal control environment on financial performance as that part of an IC element that pursues integrity, ethical values, oversight responsibilities and how management uses this structure to define assignments, authority and responsibility.

According to Mwakimasinde et al. (2021), a control environment is a set of standards, processes, and structures that provide basis for carrying out internal control systems. This value of control environment in ensuring ethical financial conduct and hence better financial performance. Complementarily, are aspects of ethical values in practices, conflict of interest, and code of conduct, tone at the top and fairness of management dealings (Kinyua et al. 2015). Almost related with Ali (2013), is the view that there is a relationship between control environment and financial performance held by Muraleetharan (2013)'s study. These studies' finding further point to a relationship between control environment and financial performance, though they did not extensively cover the private sector and specifically microfinance institutions. This was one of the reasons for the researcher to undertake this study, drawing from the context of Tujijenge Financial Services Ltd.

2.4.4 Monitoring and financial performance

A study by Katushabe (2016) explored the aspect of monitoring an IC and revealed that appropriate supervision, and well-done monitoring during a financial year is key for financial performance. Relatedly, Rafindadi& Olanrewaju (2019) reported that monitoring the activities, utilization of resources and capacity of staff in financial matters is key for steering financial performance of the organization. Appropriate mechanism of monitoring is critical in supporting financial performance levels (Ssebakumba, 2013). These studies show that monitoring helps the organization to determine whether the resources are well utilized and steer financial performance. However, they did not provide substantial evidence from the private sector entities like microfinance institutions. Therefore, this current study focused on these studies to explore the effects of monitoring on financial performance in microfinance institutions, specifically at Tujijenge Financial Services Ltd.

According to John and Morris (2011), monitoring affects financial performance by checking the quality of performance of a junior officer. In this case the senior staff by monitoring, acts as a watchdog for the organization and in regards to the conduct of the junior staff. To John and Morris (2011), monitoring is a gate keeper to financial accountability and professionalism of financial controllers. According to Hayes (2012), proper monitoring and supervision within the ICs allows for clear demarcation of responsibilities and task performance. However, Hayes (2012) did not focus on the Ugandan context, and neither were, John and Morris (2011). Later, Wang & Hooper (2017) added that proper monitoring is ensuring accuracy, punctuality, and attitudes and skills of employees and how they use these to support the organization in achieving its financial objectives. Wang and Hooper (2017) also did not conclude this in context of microfinance institutions. This left an information gap, as regards to the opinions held in these studies from the private lending-context of Tujijenge Financial Services Ltd, later explored in this current study.

Relatedly, Ssebakumba (2013) revealed that managerial monitoring is key in shaping financial performance especially supporting employees to do their duties and responsibilities. However, these studies were not carried out in a financial institution. Sharma and Senan (2019) examined the performance of the internal control officer. They revealed that monitoring activities improves officers' knowledge, skills and competencies. Monitoring cash collections, issuance and utilization enhances financial performance (Musya, 2014). One of the importance of monitoring control activities is assessing independence of operations. Due to monitoring of operations, management can ensure timely and frequent delivery of financial reports (Ishungisa, 2013).
While regular monitoring of activities might be performed informally, Sarens and DeBeelde (2016) shows that it enhances immediate response to inaccurate reporting. However, the studies were outside Uganda, and may not directly be applicable to the Ugandan perspective. Studies have confirmed that internal control environment in Non-Governmental organizations improves operational effectiveness (Ayom, 2013), but this has not detailed the same for public entities like municipalities, which was considered vital for examination in this study.

On the contrary, a number of studies, point out the negative effects flawed monitoring and supervision may have on financial performance (Katushabe, 2016; Muhunyo, 2018; Wang & Hooper, 2017). These studies point out a close link between monitoring and supervision with financial performance, where staff is trained, supported and assessed in their accuracy, punctuality, attitudes and skills to translate goals to outcomes. Unfortunately, these study bases on the positive scope of monitoring, and conclude that laxity in scope of monitoring can lead to huge losses to the organization. However, this was pointed out from the public sector operations circles, and need to be proved from the private entities like microfinance institutions.

Later, Avortri and colleagues, re-affirmed that supportive and well done monitoring leads to better performance, as it ensures effectiveness in scope of work, advice and guidance over processes and activities (Avortri, Nabukalu & Nabyonga-Orem, 2019). From their perspective, Avortri et al (2019), emphasizes supportive supervision, a reflection that monitoring alone without support may not yield desired performance. However, this is not conclusive, and draws from the health sector, not private sector setting. Whereas this may be the case, several scholars continue to reflect significant positive effects of monitoring and supervision on financial performance (Rafindadi & Olanrewaju 2019; Sharma & Senan, 2019; Wang & Hooper (2017), which presents a two-fold scope of monitoring's effect on financial performance, and seemed to vary between organizations. As a result, the researcher through this study focused on exploring these studies' perspectives from the private sector domain, a case of reference being Tujijenge Financial Services Ltd.

2.4.5 Internal Control System and Financial performance

Hussaini and Muhammed (2018) found lasting effects of internal control on performance. However, this was mainly done in a quantitative approach, and in banks. While their findings were significant, they did not reflect other variables and microfinance institution setting. In an earlier study, Chukwu (2012) found that financial fraud was often associated with a weak IC. Internal controls fraudulent practices in revenue departments. This study was undertaken in Nigeria, and not specifically on financial performance, the context of Uganda is not covered. This motivated the researcher to undertake a study that can extensively explore these aspects from a Ugandan setting.

Later, Buthayna *et al.* (2016) also examined the effect of ICs on Organizational Effectiveness. Specific reference was in the Jordan firms, through a quantitative approach. The study found that internal controls improves financial performance. This study did not directly explore ICs with financial performance but organizational effectiveness of which financial performance is a constituent. Institutions that regularly conduct internal audits are likely to excel in financial allocations. In particular, departments that exercise segregation of duties prevent unauthorized access to funds (Kisanyanya, 2018). However, these studies did not focus on microfinance institutions.

In another study by Lagat and Okelo (2016), ICs and financial management were found related based on operations of the Baringo County government in Kenya. This study, unlike Kisanyanya (2018), focused on private and public sector entities. Lagat and Okelo (2016), revealed that ICs and its components are vital for financial and performance management. A proper IC ensures assurance in financial operations, transparency and accountability in firms. Relatedly, Buthayna *et al.* (2016), added that proper IC is key and significant in predicting changes in financial management. The findings are of significance to microfinance sector entities as well, but present no reflections from the lending institutes like Tujijenge Financial Services Ltd. This left an information gap about microfinance institutions which the current study sought to close by examining the effect of internal control systems to enhance accountability and financial performance in Tujijenge Financial Services Ltd.

2.5 Summary of Literature

Globally, studies have highlighted the role of financial performance in performing organizations. Most reports on financial performance underpin the relevancy of internal controls in promoting financial performance. A lot of literature has been written on financial performance, and external auditors normally place a lot of emphasis on internal controls as measure to ensure sustainable and improved financial performance. The effectiveness of ICs which vary from one organization to the other, from one officer to the other underestimates its efficacy in microfinance sector domains. It is within the interest of the lending sector that the current study was conducted. Even when empirical findings show the relationship between internal controls and financial performance, there are many contextual gaps in their findings. Without underestimating the confirmed relationships, this study adds to the existing knowledge on the relationship between internal control systems and financial performance by designing instruments that suit the setting in Tujijenge Financial Services Ltd.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in the study. It covers the research design, study population, sample population, size, sampling procedures, data collection methods and their corresponding data collection instruments, data management and analysis procedures, reliability and validity and the ethical considerations.

3.2 Research Approach

The study utilized a mixed method approach, considering both quantitative and qualitative in data collection, management and analysis. A triangulation of quantitative and qualitative research approaches was preferred to exploit synergies offered by these two different methodological approaches (Creswell, 2018). A quantitative approach assisted in establishing statistical data that can be generalized to explain the effect of ICs on financial performance in the microfinance institutions. As expressed, quantitative approach when properly conducted gives detailed information from a wide scope of sample involved, and is able to inform a policy or decision (Bryman, 2018). Complementarily, opinions and views of participants in strategic and technical positions that can provide detail on scope of ICs and financial performance of TFS were incorporated. This was a qualitative perspective. A mixed approach was utilized to provide a comprehensive detail of data about the effect of ICs on financial performance of Tujijenge Financial Services Ltd in Uganda.

3.3 Research Design

The study used a descriptive research design, specifically focusing on correlation analysis of the study data. Utilizing a descriptive and correlation analysis was justified by its ability to support the researcher ascertain the relationship between internal control system and financial performance. A correlation is used to ascertain a relationship between variables (Creswell, 2018). A correlation level of analysis was a basis to ascertain how various constructs of ICs (risk assessment, control environment, control activities and monitoring) are related with financial performance's accountability, transparency and reporting. Primary and secondary data were collected for this study. Correlations are widely used and referred to when establishing relationships between variables.

3.4 Area of study

This study was done at Tujijenge Financial Services Ltd in Uganda. Tujijenge Financial Services Ltd has five branches in- Bukedea, Soroti, Busia, Namayingo and Mbale. Tujijenge Financial Services Ltd Mbale is where the head office and they oversee the activities of other branches. Tujijenge Financial Services is located at Nkokonjeru 0.5kms from Mbale city.

Choice of Tujijenge Financial Service Ltd was due to the slow pace of service delivery often constrained with unrealized financial performance targets. More so, Management of Tujijenga Financial Services ltd were willing to share information for research. All these made Tujijenge Financial Services Ltd, a potential source of information for this study.

3.5 Population of the study

The study was conducted in Tujijenge Financial Services Ltd. Throughout all the branches, TFS has a total of 33 employees. This number was obtained from their payroll records, on basis of the distribution of employees in the departments (as per TFS Human Resource departmental data).

distributed in Table1.

Table 1: Study population

Department	**Branch**					**Total**
	Namayingo	**Mbale**	**Busia**	**Soroti**	**Bukedea**	
Human Resource & Administration	01	02	01	01	01	06
Finance & Accounts	01	02	01	03	01	08
Audit	00	01	00	00	00	01
Loan Officers	06	06	06	10	09	37
Office Assistants	01	01	01	01	01	05
Total						57

Source: Tujijenge Financial Services data

All these constituted the target population contacted at Tujijenge Financial Services Ltd. The study sought responses from all Administration and employees of Tujijenge Financial Services Ltd. Employees at all managerial hierarchies were represented in the study, since financial performance cuts across all departments of the institution.

3.6 Sample size and Sample Procedure

3.6.1 Sample Size

The study sample constituted 169 study units derived basing on Krejcie and Morgan's sample table of determining the sample from a given population (Krejcie & Morgan, 1970). The selected sample was distributed among employees at TFS.

Table 2: Sample size and selection

Department	**Sample**	**Sampling technique**
Human resource & Administration	05	Simple random sampling
Finance & Accounts	07	Cluster and Simple random sampling
Audit	01	Cluster and Simple random sampling
Loan officers	32	Cluster and Simple random sampling
Office Assistants	04	Cluster and Simple random sampling
Total	**49**	

Source: Researcher, based on Krejcie & Morgan, and TFS Human Resource data

3.6.2 Sampling techniques

Purposive, cluster and simple random sampling techniques guided the researcher in selecting respondents. In purposive sampling, researcher included only those participants who met particular criteria (Bryman, 2018). Given that the beneficiaries were many and very far, and could be attained on convenience basis, purposive sampling was considered appropriate for this category of participants. Beneficiaries were contacted at their premises basing on their willingness to be part of the study.

Cluster sampling was utilized to obtain the sample of employees for the study. All employees were clustered in their departments basing on the branches in which they operated on. Cluster sampling was ideal to provide an equitable representation of participants from each department. It is preferred when participants can be grouped into clusters each with specific homogeneous characteristics (Creswell, 2018). In each cluster, participative samples were then selected using simple random technique. In simple random sampling, the researcher gave chance to all employees of TFS especially those in Major branches to participate in the study (Kothari & Garg, 2014). The researcher gave a number to each employee in TFS, which was written on equal cards. These were placed in a box and picked at random until the required sample size was realized. The beneficiaries were purposively contacted on basis of their convenience and willingness to be part of the study.

3.7 Data Collection Source

3.7.1 Primary Data

Primary sources included data original facts from the field and presented in its original form (Amin, 2005). Respondents were given questionnaires and interview guides that they filled. The researcher aggregated the responses which constituted the data and later results of the study.

3.7.2 Secondary Data

Publications from secondary sources like dissertations, publications, journals and internet. This was accessed to obtain relevant and supporting literature (Amin, 2005).

3.8 Data collection methods

3.8.1 Survey Questionnaire

Questionnaires are one of most commonly used tools in survey with a large number of participants. In this study, a structured questionnaire were utilized. A self-administered Questionnaire method was adapted. Questionnaires as a method are ideal for saving time, they are cost effective and provide room for high response rate (Creswell, 2018). Questionnaires provided room for confidentiality, and considered ideal for sensitive areas of study like ICs and institution performance. The respondents had to choose options basing on their level of agreement with the questionnaire items.

3.8.2 Interviewing

In this study, interviewing was adopted. The research engaged respondents in a face-to-face interview with the focus on the study topic and objectives. Interviewing is widely used when one is soliciting for detailed information about the subject from a key informant (Bryman, 2018). Face-to face interviews were held with TFS Major Branches. Each interview took duration of 20-35 minutes. The interviews were facilitated by a semi structured interview guide. These interviews were used for comprehensive scope of data collection about internal controls and financial performance at Tujijenge Financial Services Ltd.

3.9 Data Collection Instruments

This study collected data using structured questionnaire and interview guides.

3.9.1 Questionnaires

This study considered a closed-ended questionnaire (Mugenda & Mugenda, 2013).Two questionnaires were prepared for employees of TFS and beneficiaries to the services offered by the institution (Appendix IV and V respectively). Questions were designed following a likely scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A self-completion questionnaire was used on members because it’s cost-effective in collecting data (Kent, 2007). The questionnaire was employed on workers as well beneficiaries to various services offered by Tujijenge Financial Services Ltd.

3.9.2 Interview Guide

In the study, interview guides was designed (Appendix VI). This was administered in a face-to face interview session with selected staff of Tujijenge Financial Services Ltd. These selected staff included: head of departments and other top level Administrators. The guide was designed with open ended questions. At least three (3) questions were asked, on each study variable. Interviews are commonly used for detailed perspectives about the phenomena under study (Creswell, 2018). The interviews also allowed participants to freely express themselves, giving a comprehensive scope of coverage of information about the study variables.

3.10 Data Quality Control

For every research study, the quality of data is very important. This is through ensuring validity and reliability of study of instruments (Yin, 2014).

3.10.1 Validity

The study tools were pre-tested for face and content validity. For face validity, tools were reviewed by supervisors who made comments on questions in the questionnaire and interview guide. The questions found vague as suggested by the supervisor were eliminated or rephrased. To measure content validity, each of the pretest respondents was requested to rate questions in questionnaire. Questions were rated as relevant (R) or irrelevant (IR) as a way of showing their level of agreement or disagreement with the fact in the questions.

From respondents' rating, Content Validity Index (CVI) was computed using the following formula: $CVI=\frac{R}{(R+IR)}$. The tools were considered valid, if their CVI is 0.7 and above as recommended (Amin, 2005). However, necessary adjustments were made to improve the validity of the tools on items/questions that were ranked Irrelevant (IR).

$$CVI = \frac{Items\ considered\ relevant}{total\ number\ of\ items} = \frac{41}{50} = 0.82$$

Since the CVI was above 0.7, the items used covered the content under study, and were relevant to the problem under investigation.

3.10.2 Reliability

Reliability is the extent to which an instrument generates consistent results over time (Creswell, 2018). The researcher pre-tested the instrument on 10 people, the results of which were analyzed in SPSS Ver. 23. From reliability test, Cronbach alpha values were attained, and considered reliable if their alpha values are 0.7 and above. This has been used by earlier studies as recommended (Mugenda & Mugenda, 2013).

Table 3: Reliability Statistics

Variable List	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Risk assessment	.712	.708	8
Control activities	.692	.700	8
Control environment	.637	.674	7
Monitoring	.805	.809	7
Financial performance	.679	.702	11
Overall	**0.705**	**0.719**	**41**

Source: Field data, 2025

The overall reliability statistics (α = .719), which above 0.7 suggests that the instrument used in this study was reliable and adequate for generalization.

3.10.3 Measurement of Variables

Internal controls were measured in terms of risk assessment, control activities, monitoring, and control environment. Financial performance was measured in terms of accountability, financial transparency and reporting. Participants expressed their opinions by agreeing or disagreeing with some statements on internal controls and financial performance. The likert scale, ranging from strongly disagree (1) to strongly agree (5) was used. The study used nominal and likert scale questions. These were used in questionnaire design and for data analysis based on frequencies, percentages and Pearson rank correlation coefficients measures.

3.11 Data Collection Procedure

The researcher obtained a letter from Uganda Christian University which introduced him to Tujijenge Financial Services Ltd. TFS after receiving formal introduction of the researcher, granted permission for the study. With a formal permission, the study tools were administered to employees of Tujijenge Financial Services Ltd. The researcher presented the data collection tools to 10 respondents of Tujijenge Financial Services Ltd for validity and reliability of the instrument.

3.12 Method of Data Analysis

The researcher conducted a data validation for consistency in order to eliminate misleading data which could arise from misrepresentation of questions.

3.12.1 Analysis of Quantitative Data

Quantitative analysis was descriptive and inferential in nature. Descriptive statistical measures helped the researcher to describe the state of internal controls and financial performance of TFS as at the time of study. Inferential statistics took form of correlation and multiple regression. Pearson correlation helped to test for the nature and strength of relationships while multiple regression tested for variation in financial performance accounted to each independent predictors of internal control. Quantitative analysis was aided with SPSS ver. 23.

3.12.2 Analysis of Qualitative Data

Data from interviews was sorted for completeness. Using content analysis, qualitative views were categorized, patterned, and emerging themes identified (Mugenda & Mugenda, 2013).
Simple quotations and corresponding questions were integrated with quantitative findings for emphasis. Verbatim statements showed stance of respondents on ICs and financial performance.

3.13 Ethical Considerations

The study upheld all ethical considerations recommended in research, including seeking participants' informed consent, privacy, anonymity, confidentiality and avoiding plagiarism.

Seeking participants' informed consent: Before engaging any participant in the study, the researcher first sought their informed consent. The purpose, objectives and mode of participation in the study were elaborated to potential participants. The participants were also allowed to ask questions for clarification (where need arose). They were asked to fill a consent form (Appendix III), to affirm their acceptance to be part of study. Only consenting participants were involved in the study.

Privacy: The participants selected were treated with a high level of privacy. No participant was allowed to tick the questionnaire in groups or engage in group interviews. Each participant responded to the study tools separately. Any recording done was used for the study, later deleted from researcher's database. Privacy of all official documents accessed was also upheld.

Confidentiality: This relates to the extent to which respondents' information was disclosed. The researcher kept respondents' information with utmost confidentiality. Data was securely protected on flash and only available to the University. After the presentation of the final report, all the data in the flash were destroyed. In case of publishing the findings, the researcher would seek permission from the concerned parties for authorization.

Anonymity: Keeping researcher' details and personality anonymous is vital for studies that involve humans over sensitive information (Stevenson & Mahmut, 2013). The researcher upheld all private data, details and opinions from respondents, anonymous. Information was kept under key and lock and used exclusively for academic purposes. Specific names of persons and areas that can hardly be ignored in the report were represented by Pseudo names for this purpose. Only information that causally relate to the study objectives, were included in the study report.

3.14 Limitations

Some respondents were not ready to answer the questions, or spare time for the study. This delayed the study and reduced the study sample. However, the researcher explained the purpose of the study to respondents and developed simple and straight forward tools. This encouraged most of the participants to take part in the study confidently.

Some respondents concealed important data for personal and official reasons. This arose on the aspect of financial performance, largely considered as classified information. This however was minimized by promising privacy and confidentiality. More so, the researcher sought and obtained formal permission from Tujijenge Financial Services Ltd to access this information.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter presents the analysis of the research problem. Besides the analysis, the chapter presents the bio data of the participants and hypotheses tests.

4.2 Bio data information

The bio data covered basically gender, level of education, age brackets, and the years of working with TFS. Table 4 summarizes the bio data.

Table 4: Bio data of respondents

Variable list	Categories	Frequency	Percent
Gender	Male	26	53.9
	Female	23	46.1
	Total	49	100
Level of education	Certificate	7	14.2
	Diploma	17	34
	Degree	16	33.3
	Masters	9	18.4
	Total	49	100
Age bracket	18 – 35	20	41.1
	36 – 60	22	45.4
	Above 60	7	13.5
	Total	49	100
Years at TFS	Less than one year	8	16.3

	1 - 5 years	16	32.6
	6 - 10 years	7	14.9
	10 years and	18	36.2
Above	Total	49	100

Source: Field data, 2025

The findings on gender show that 53.9% were male while 46.1% were female. The study was therefore dominated by male participants. This was possibly because, Tujijenge Financial Services Ltd has majority of the male employees, and that several beneficiaries were business proprietors, a large number of whom were men. The study shows that 34.0% of participants had diplomas and were majority while only 14.2% had certificates. The statistics suggests that besides diploma holders, degree holders were common in the study. This was possibly because; diploma and degree qualifications were the minimum/basic qualifications respectively for employees at the institution. Few participants indicated having masters possibly because employees pursued master education out of will as it was not a requirement for getting a job. More so, several beneficiaries to TFS services preferred business activities to education career development and hence a few could focus on pursuing their education up to masters' education.

Regarding participants' age bracket, 45.4% belonged to the 36 – 60 years age bracket and were the majority, followed by those in the age bracket of 18 – 35 years. The least participation was observed among the older persons, possibly because of the retirement age conditions of all private servants at the age of 60. The dominance of the adults the 36 – 60 years age bracket was the most active age bracket in the country where people either seek and work in microfinance institutions like TFS or engage in business as it was for beneficiaries. The study further established that 36.2% had stayed in TFS for 10 years and over and were the majority. Those who had stayed at TFS for a period of 6 – 10 years were only 14.9% and were the least in participation. This was possibly because of the fact that as a microfinance, the institution takes a bureaucratic process in recruitment of its employees. More so, TFS good employee retention policy. Several participants with a less than 6 years' scope of work with the institution were the beneficiaries. Therefore, participants had an extensive period of service, interaction with TFS which gave them a wide experience and exposure to give detailed data needed for this study.

4.3 Descriptive analysis

This type of analysis allowed the researcher to summarize the attributes and nature of data on internal controls and financial performance. The technique revolved around mean (central tendency) and standard deviation (dispersion). The researcher used mean to measure the extent to which participants' opinions on internal controls and financial performance clustered.

Standard deviation measured the extent to which participants' opinions differed from one participant to the other.

4.3.1 Internal control systems

Internal control was measured in terms of risk management, control activities, control environment, and monitoring of activities, which were anchored on a five-pointer likert scale. The study, using the descriptive statistical procedure of SPSS runs the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score, 0 to 2.49 was interpreted as 'weak', 2.50 to 3.49 was interpreted as 'average' while 3.50 to 5.00 was interpreted as 'strong'. Table 5 summarizes the internal control systems.

Table 5: Internal control systems

Variable List; N = 49	**Mean**	**Std.**
Risk Management		
1. There are strong risk assessment measures at each financial control desk	4.05	1.00
2. Senior officials assist junior staff to analyze risks	4.04	0.96
3. The risks are assessed in terms of achievement of objectives	3.99	0.84
4. We are trained to forecast financial risks	3.94	0.92
5. The risks are assessed basing on visible consequences	3.94	0.97
6. Financial controllers communicate likely risks to all staff	3.94	1.10
7. Risks are identified in terms of occurrence likelihood	3.77	0.78

8. Risks that occur are carefully analyzed by all staff	3.48	1.19
Average	**3.89**	**0.97**
Control Activities		
1. Authorization is required for every activity	4.38	0.85
2. At TFS senior staff checks the work of the employees under their department	4.35	0.76
3. All financial documents are reviewed for accuracy and completeness	4.26	0.98
4. There is strict adherence to approval and authorization systems in place	4.15	0.90
5. TFS management separates its roles/duties amongst its employees	4.10	1.04
6. TFS has security that identifies organization assets	3.96	1.02
7. TFS management weekly checks on employees' level of meeting set targets	3.58	1.03
8. There is a routine check on physical assets of the council every week	3.50	1.19
Average	**4.04**	**0.97**
Control Environment		
1. TFS prioritizes accuracy and competent service delivery in regard to control of financial resources	4.40	0.84
2. Employees are made aware of their roles in implementation of the ICs	4.30	1.00
3. Top management and departmental heads delegate their responsibilities to junior staff	4.29	0.75
4. TFS management has enough skills to oversee its internal control system	4.17	0.85
5. Management provides written guidelines on how staff should handle council's finances	4.00	1.01
6. Management emphasizes adherence to work place and professional ethics among financial controllers at the council	3.69	1.37
7. There is a clear process in the financial records and management at this council	2.79	1.66
Average	**3.95**	**1.07**
Monitoring		
1. Financial books are audited regularly	4.42	0.79
2. There is effective monitoring for proper use of resources at each department	4.29	0.71
3. There is a team of supervisors responsible for carrying out monitoring at TFS	4.28	0.87
4. There is continuous performance monitoring process for financial controllers	4.26	0.78

5. There are regular performance inspections by management at TFS	4.20	0.73
6. All assets are monitored to ensure transparency in activities of the institution.	4.13	0.86
7. Staff at TFS do a self-assessment regarding adherence to performance goals.	4.06	0.84
Average	**4.24**	**0.80**

Source: Field data, 2025 the findings indicate that Risk management (mean = 3.89; std. = .97) was strong, control activity (mean = 4.04; std. = .97) was strong, control environment (mean = 3.95; std. = 1.07) was strong, and monitoring (mean = 4.24; std. = .80) was strong. The findings generally suggest that all internal control systems at TFS were strong. While there are many internal control activities at TFS, the statistics reveal that monitoring of activities is the most enforced internal control mechanism at TFS. This is possibly because monitoring overlaps in all the activities, and at all level of financial control and management. Whether at operations, or tactical and strategic level, monitoring and supervision is a key measure of ensuring financial prudence and transparency in Tujijenge Financial Services Ltd.

A comparison of standard deviations suggest that participants were more consistent in their opinions on monitoring of activities than they were on control environment. The inconsistent opinions on the control environment suggest some gaps in its enforcement. These may relate to the challenges TFS is facing in coordinating and controlling financial controllers at various branches. Some of the financial controllers utilize relaxation in head of departments to put them on pressure, to their benefit, consequently submitting their reports late. This is a weakness in the internal control environment at the institution.

Risk management at TFS is mostly evident in the risk assessment measures that have been placed at each financial control desk (mean = 4.05; std. = 1.00). On the weakest side the statistics suggest that not all staff carefully analyze risks whenever it occurs (mean = 3.48; std. = 1.19). Besides placing risk assessment measures at each financial desk, senior officials assist the juniors to analyze risks. However, going by the standard deviation, risk management is mostly evident in the way financial controllers communicate likely risks. Effective communication about risks at TFS and related public entities, helps the responsible officers to quickly identify these risks and address them.

Regarding control activities as an internal control activity, there were strong evidences of authorization for every activity (mean = 4.38; std. = .85), checking on performance of employees by senior staff at departmental level (mean = 4.35; std. = .76), and reviewing financial documents for accuracy (mean = 4.26; std. = .98). While the mean scores indicate that authorization of activity as most implemented form of controlling activities, standard deviations suggest that the act of senior staff to oversee the work of junior employees mostly explains the strength of control activities. Routine and strict check of junior staff's work by their seniors is good as it enhances their adherence to set controls and standards, and consequently save the organization of likely risks and losses.

Control environment is strong mostly because of prioritizing accuracy and competent service delivery (mean = 4.40; std. = .84). From the weakest extreme, the process in the financial records and management at TFS is not clear (mean = 2.79; std. = 1.66). While the mean scores indicate that the control environment is strong due to prioritizing accuracy and competent service delivery, a comparison of standard deviations suggest that the act of delegating responsibilities to junior staff explains the strength of control environment. Delegation is one of the most used tool in steering adherence to the set control environment. Delegates' are able to keep focused, prioritize accuracy in delivery and ensure they meet set standards without any lapses. Where a senior staff would not be conscious, a delegated staff is strict and observes set guidelines to dot.

Monitoring of activities is strong mostly because of the regular auditing of financial books (mean = 4.42; std. = .79). Besides the regular auditing of financial books, TFS has a monitoring team that monitors the use of resources at department level, assesses continually the performance, and regularly inspects to ensure that the monitoring is done effectively. The standard deviations on monitoring of activities did not reveal the significant deviations in participants' opinions.

4.3.2 Financial performance

The researcher used a set of statements to indicate financial performance in TFS. The study, using the descriptive statistical procedure of SPSS ran the mean of the responses for each item on the questionnaire. As a guide to interpreting the mean score was that, 0 to 2.49 interpreted as

'Poor, 2.50 to 3.49 was interpreted as 'average' while 3.50 to 5.00 was interpreted as 'good. Table 6 summarizes the financial performance at TFS.

Table 6: Financial performance

Variable List; N = 141	Mean	Std.
1. The Auditors present financial reports to management in time	4.34	0.84
2. Financial reports are prepared in time	4.23	0.76
3. Financial controllers staff regular present departmental reports	4.21	0.75
4. TFS always accounts for unused cash at the end of every financial year	4.20	0.85
5. All finances received at this council are well reported to stakeholders	4.19	0.85
6. TFS meets all its short and long term financial obligations whenever they are due	4.07	0.78
7. All user departments present detailed financial performance reports	3.99	0.97
8. The local revenue for TFS has increased	3.79	1.09
9. Staff at TFS are transparent in their financial performance activities	3.68	1.02
10. There are reports of financial mismanagement in some divisions of TFS	3.57	1.15
11. There are reports of unauthorized public expenditure at some TFS divisions	3.41	1.21
Average	**3.97**	**0.94**

Source: Field data, 2025

The study found that financial performance (mean = 3.97; std. = .94) was generally good. This good performance is mostly attributed to the timely presentation of financial reports by the auditors (mean = 4.34; std. = .84). Besides the timely presentation of financial reports, the good financial performance is due to preparing on time (mean = 4.23; std. = .76), regular presentation of reports by financial controllers (mean = 4.21; std. = .75), and accounting for unused cash (mean = 4.20; std. = .85) contribute to the good financial performance. From the lowest extreme, this study found some reports of unauthorized expenditures (mean = 3.41; std. = 1.21), which are likely to affect the good financial performance of TFS. The mean scores indicate that the good financial performance is mostly due to auditors' work. However, a comparison of standard deviations suggests that the financial performance observed at TFS is mostly due to financial controllers who present their reports timely. This in practice means that where the financial controllers are active, the scope of financial performance in an organization is possible. Activeness of financial actors is envisaged in the roles. The auditor, asking for the financial statements and reports in time, and the financial controller submitting them as well in time. Generally, effective financial performance in microfinance institutions was closely linked to the actors in the financial control discipline at the entity.

4.4 Inferential Analysis

The researcher used correlation to test for the relationship between internal controls and financial performance. Regression was used to establish the effect of internal control systems on financial performance. Finally, hypothesis testing was used to verify all the hypotheses that were developed in the introductory chapter of the project.

4.4.1 Correlation tests

This study used the correlation coefficient to establish the degree of the relationship between internal control systems and financial performance. The correlation coefficient, which ranges from zero to one shows the nature and strength of the relationship. Strong correlation coefficients tend towards one while weak correlation coefficients tend towards zero.

Table 7: Correlation tests

Performance-6	Correlation		*)	*)		
	Sig. (2-tailed)	.000	.000	.000	.000	.000

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

There is a strong relationship between internal controls and financial performance, as provided by

		1	2	3	4	5	6
Risk Management-1	Pearson Correlation	1					
	Sig. (2-tailed)						
Control Activities-2	Pearson Correlation	.654(**)	1				
	Sig. (2-tailed)	.000					
Control Environment-3	Pearson Correlation	.505(**)	.614(**)	1			
	Sig. (2-tailed)	.000	.000				
Monitoring-4	Pearson Correlation	.574(**)	.784(**)	.612(**)	1		
	Sig. (2-tailed)	.000	.000	.000			
Internal Control systems-5	Pearson Correlation	.803(**)	.896(**)	.818(**)	.871(**)	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
Financial	Pearson	.627(**)	.604(*	.557(*	.595(**)	.703(**)	1

(r = .703; sig. <.05). This suggests that variations in internal control systems are associated to variations in financial performance. Any improvements in the internal control function would improve financial performance in both short and long run durations. More so, the significant value, which is less than 0.05 suggests that the relationship between internal controls and financial performance is significant and the two variables are statistically and linearly related.

The study also established positive and significant relationships between risk management and financial performance (r = .627; sig. <.05), control activities and financial performance (r = .604; sig. <.05), control environment and financial performance (r = .557; sig. <.05), and monitoring controls and financial performance (r = .595; sig. <.05). The study shows that variations in all the dimensions of internal control is strongly associated to variations in financial performance. This shows that while each of the components of IC affected financial performance differently with a dominant influence evident in risk management, and least in control environment. The four components worked together and were complementary in realization of desired financial performance. Microfinance institutions like Tujijenge Financial Services Ltd, need to be keen in adhering to each of these IC components, holistically. Basing on these results, the researcher concludes that microfinance institutions that have strong internal control systems are likely to register strong financial performance. In real sense, if TFS focuses on enriching its ICs, the potentials of realizing positive financial performance scores, and meeting set targets, which was not the case by study time is possible.

4.4.2 Regression tests

Regression analysis gives a mathematical relationship between the independent and the dependent variables. This study set internal controls as the independent variable and financial performance as the dependent variable. The beta coefficients gives the proportion of the dependent variable accountable to each of the predictor variables. Given the current study, risk management, control activities, control environment and monitoring were used as the predictor variables.

Table 8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.234	.237		5.201	.000
	Risk Management	.286	.067	.349	4.296	.000
	Control Activities	.086	.091	.103	.949	.344
	Control Environment	.148	.059	.201	2.506	.013
	Monitoring	.163	.086	.192	1.896	.060

R = .712; R Square = .507; Adjust ed R Square = .492

a Dependent Variable: Financial Performance

The overall effect of internal control systems on financial performance was 50.7%, as provided by (R Square = .507). The study shows that microfinance institutions in Uganda that have strong internal controls are likely to register a 50% variation in their financial performance. Organizations like TFS which uphold set guidelines and requirements of internal controls are able to improve their performance by half, another fraction being from other factors that influence financial performance.

The specific effects of the predictor variables shows that risk management accounts for 34.9% of the variations in financial performance (Beta =.349; sig. <.05). Control activities accounts for 10.3% of variations in financial performance (Beta = .103; sig >.05). Control environment accounts for 20.1% of variations in financial performance (Beta = .201; sig. <.05). Monitoring of activities accounts for 19.2% of variations in financial performance (Beta = .192; sig. >.05). By implication, statistics suggest that a variation in risk management by a single unit is likely to result in a 34.9% effect in financial performance. Likewise, a variation in monitoring of activities by a single unit is likely to result in a 19.2% effect in financial performance. A reflection of activities that are undertaken in finance departments, safeguarding against risks as well as identifying and setting mitigation measures, save the firm from huge losses. Often risks tend to occur in operations, and monitoring later. Thus, care has to be taken to manage risks, as what is the outcome of the financial records and documentation process is, what is monitored by supervisors and auditors. Keen attention to risks which occur before or during the process is indispensable in any efforts to attain financial performance targets.

The statistics further revealed that risk management and control environment had significant effects on financial performance. On the other hand, control activities and monitoring did not show any significant effects on financial performance. In all financial activities, risks management and control environment are embedded with in process of financial management determining the financial flow. A risky financial flow will significantly affect the final financial outcome, when it is monitored or not. In several cases, financial related activities are well defined, and each financial controller or auditor is aware of the scope of financial activities before hand, as a result control of these activities may not influence overall financial performance, as routine activities. On the other hand, situation in which they are done (control environment), and efforts undertaken to do them well without causing harm to the organization (risk management), can adversely affect the financial performance when not well handled.

4.4.3 Hypothesis tests

The study used the significance value approach to test the hypotheses designed in the introductory chapter of this study. In this approach, the test statistic is compared with sample statistic to verify the hypothetical claims. In social sciences, the test statistic is normally set at 95% ($\alpha = .05$). If the sample statistic is less than 0.05 the null hypothesis is rejected and the alternative hypothesis is accepted. On the other if the sample statistic is greater than 0.05, the null hypothesis is accepted and the alternative hypothesis is rejected.

Table 9: Decision strategy

Criterion	Alpha	Decision	Hypothetical Statements
0.05	.000	Reject	1. Risk assessment has no significant positive effect on financial performance of Tujijenge Financial Services Ltd
0.05	.344	Accept	2. Control activities has no significant positive effect on financial performance of Tujijenge Financial Services Ltd
0.05	.013	Reject	3. Control environment has no significant positive effect on financial performance of Tujijenge Financial Services Ltd
0.05	.060	Accept	4. Monitoring has no significant positive effect on financial performance of Tujijenge Financial Services Ltd

Source: Field data, 2025

From the table above, the null hypotheses that risk management significant effect on financial performance was rejected. The study accepted the alternative hypothesis that risk management significantly affects financial performance. Similarly, this study rejected the null hypothesis and accepted the alternative hypothesis that control environment significantly affects financial performance. On the other hand, the null hypothesis that control activities have no significant effect on financial performance was accepted. Similarly, the study accepted the null hypothesis that monitoring of activities has no significant effect on financial performance. For any 100 employees that took part in the study, over 95% are more likely to assert that monitoring of activities and control environments have not supported TFS in her endeavors to strengthen her financial position.

4.5 Chapter Summary

The financial performance of TFS was generally due to the internal controls in place. This level of financial performance was mostly due to efforts made by institution in risk management and enforcing the control environment. Control activities and monitoring of activities appeared of little effect to the financial performance of TFS.

CHAPTER FIVE

DISCUSSION OF RESULTS, SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter presents a discussion of findings presented according to the research objectives. The findings from interviews were herein integrated in the discussion. Summary of findings, the conclusion, recommendations, and areas for future research. Summary of findings, conclusions are based on the research objectives, which recommendations are based on empirical findings

5.1 Effect of risk assessment on financial performance

Risk management has a significant effect on financial performance in TFS. By implicating organizations that observe risk management, they are likely to perform financially than those which do not. This opinion that was also held by Lagat and Okelo (2016) that how a firm handles its risk assessment aspects is vital for financial and performance management. Complementary views from employees of Tujijenge Financial Services Ltd also revealed related opinions. Evidence from TFS on risk management points to presence of a financial control desk, presence of senior officials who assist junior officials on how to identify and analyze risks, and training staff on how to mitigate financial risks occurrence. According to one interviewee,

…*risks are numerous in any organization, but here in Tujijenge, we handle them as they arise. For instance, our tax officials reported collusion with the URA agents, which was affecting our internally generated revenues. We had to arrange a meeting with the URA agents to define areas of jurisdiction*…

In reality, two government entities were likely to conflict in their operations, which would not only taint the image of TFS but the microfinance institutions as a whole. This also reflects what was pointed out by Magara (2013) noted that risk assessment is ideal for providing a dependable financial scope, and where the contrary exists, the reputation of the firm stands at stake. Much as the risk was not brought to light by senior officials charged with tax collection, experience from the field brought forward the likely clashing, which was corrected immediately. More so, these findings agree with (COSO, 2013) who report that risk assessment helps organizations to eliminate harmful operations of the company. Possible harm like shortfalls in liquidity, over or under budget forecasts, IT security risk, fraud and human errors in records keeping. These risks tend to emerge, with the ICs and can only be avoided with strict risk assessments. The findings agree with (Ntongo (2012; Kinyua et al., 2015; Kipkemboi, Ayuma & Terer, 2016) who revealed that risk assessment shapes the extent to which employees respond to risk; which include transfer, tolerance, treatment and termination. Firms that identify risks hardly operate outside the acceptable standards. It's these standards that help financial controllers to identify potential areas of risk, and they avoid them. More so, these tasks right from risk identification to risk mitigation form the basis of quality reporting, which consequently support financial performance of the organization.

Whereas the study findings show that risk assessment was a key predictor of financial performance, and proper risk assessment was an asset in the pursuant of financial performance. This depended also on several factors like the official implementation of the practice (risk assessment) and other IC factors. In light of this, studies like that of Schulze et al. (2013) noted that risk assessment cannot in standalone in isolation but also with the support of other factors like human resources competence, and other IC components. Relatedly, some of these risks may not be predictable and hence uncontrollable such as pandemics (Grondys et al. 2021), and yet others can present direct negative effects on financial performance as noted by Onsongo et al., (2020). Therefore, these studies (Grondys et al. 2021; Onsongo et al., 2020; Schulze et al. 2013), contradict with this overall findings that risk assessment positively affects financial performance.

5.1.2 Effect control activities on financial performance

The study found that control activities do not have a significant effect on financial performance of TFS. The findings suggest that laying much emphasis on control activities is least likely to cause a significant change in the financial operations of any organization. This concurs with the earlier perspective of Sharma & Senan (2019) that control activities define a lot in regards to financial activities in an organization. Evidence from TFS revealed some laxity in the routine checks on the physical assets of the institution which was often attributed to the fact that almost all the control activities are done on routine basis. Several financial controllers and auditor at TFS may not easily identify these as new, unique areas worthy special attention.

The above findings, however disagree with Whittington & Pany (2016) who showed that better control activities especially through performance reviews, forecasts, period performance, physical controls and segregation of duties influence financial performance of the company. In essence control activities should not be taken as routine activities as they present an outstanding value to a firm. At TFS for instance, control activities especially the performance reviews, are a basis for budget evaluations, and planning, and physical control safe guards against misuse of assets like motorbikes by staff, for personal benefits. When duties are well segregated, also as part of control activities, TFS is able to have a smooth flow of activities, as each office bearer focuses on tasks at his/her desk.

More so the findings contradict the view of Tunji (2018) who opined that physical security of physical and non-physical property is very important. He observes that the use of passwords to enforce information security should be implemented to minimize unauthorized logins. According to one of the employees at TFS, he revealed that,

…our assets, especially the physical assets are safe only that they are sometimes used by unauthorized persons. I will give the example of some of the company bikes. You find them on the streets even during the weekend, and you ask yourself why at that time? *Take the case of stationery, it sounds small but officers use some of these resources for other purposes than those of the institution…*

This view suggests that there exists some gaps in the institutions control of activities. Likewise, Onsongo, Muathe and Mwangi (2020) also revealed that controls shape what the company does, though not all organizations have the right control activities in place. As noted from the interviews, there are some loopholes that lend access of the institutions resources to unauthorized persons. The concept of unauthorized may not necessarily refer to enemies to the institutions but those who use resources unlawfully.

While many authors have documented that control activities control the occurrence of fraud, the practicality of this vice is hard to control. For instance,

…we receive a lot of money from partners to facilitate the provision of loans to the clients. These monies are laid down in the annual performance budgets. However, the clients are

sometimes dismayed when the loans requested for do not come in time as their expectations…Clients funds are not always rightfully, used. No wonder, the internal Auditor reported negatively on funds usage in one of the recent reports…

This excerpt supports many reports that have been documented on the misuse of finances at the institution. Clients and the loan officers have taken advantage of the gaps in the financial management systems to squander the institutions finances. In the long run, money is put to other purposes than what it was intended for, and the institution suffers the consequences of financial loss forcing them to write off some of the unpaid loans. The findings further contradict Bukenya and Kinatta (2022) who noted that proper physical control improves financial performance by safeguarding vulnerable assets while Chiezey and Agbo (2018) and Katnic (2021) show that control activities eliminate occurrence of fraud in an organization. Similarly the findings do not agree with Katushabe (2020) who revealed that firms must always adhere to internal control activities, as they form a key pillar in organization performance, especially in financial perspectives. The study also did not support conclusion by Henk (2023) that control activities must be adhered by all employees of Tujijenge which he considers as institutional embeddedness. Employees out of this institutional placement (in top positions) have taken advantage of financial management system gaps, to mismanage finances than implementing control activities.

5.1.3 Effect of control environment on financial performance

The findings found that control environment significantly affects financial performance of TFS. The findings suggest that organizations that ensure that their control environments are rightly placed are likely to perform better than those which do not. By implication, TFS has been able to maintain her control environment through prioritizing service delivery and financial resources, making sure that all officers know their roles, duties and providing opportunities for delegating powers. The findings of (Eton et al., 2018; Younas & Kassim, 2019) also consider the control environment as key for steering financial performance while promoting organizational structure and accountability relationships. The results also agree with (CPA Study Kit, 2016; Kinyua et al. 2015) who pointed out that delegating powers to lower officers by senior officers helps both managers and staff to commit themselves to accountability of the institution. This view was highly expressed in one interview:

…All the work in this organization is the director's work. Therefore, when I assign someone to do a particular task, I am in one way or the other creating an avenue to deliver on time but also to exploit one's potentials in that task. Besides, any one whom I assign a task will become competent at the end of the day, and that is mentorship…

On the contrary however, some officers tend to delegate junior officers the tasks that do not have any monetary value. As a result the staff delegated the work gets demotivated, and perform poorly. In such cases, control activities are not implemented. Reflecting on this, one participants in the interview said

…workshops that attract a reasonable perdiem are attended by management, while the junior officers are keeping the offices. Rather than being motivated, the junior officers are demotivated, which affects the general performance of the organization…

This excerpt suggests that while the large part of the organization are confidently acknowledging the importance of delegating authority as a tool of strengthening internal controls, some staff in the institution are left out of the beneficiaries. This will eventually suffocate the performance of the organization.

Whereas, this current study findings agree with Eton et al. (2018)'s findings that control environment is a core function which organizations cannot do without if they are to harmonize their ICs, some studies, refute this conclusion. For instance studies (Inusah & Abdulai, 2015; Muhunyo, 2018) revealed that in some cases especially in public institutions of learning the control environment especially where human resources policies and authority are not well controlled and exercised respectively. Like it would be in the case of TFS, while the entity is independent, some of its control environment is shaped by the management competitive policies, and as a result their implementation in the local context may have worrying negative outcomes on the overall ICs and financial performance at large.

5.1.4 Effect between monitoring on financial performance

The study found that monitoring of activities does not significantly affect financial performance of TFS. This view and finding consistently agree with Olanrewaju (2019) who reported that monitoring the activities, utilization of resources and capacity of staff in financial matters is key for steering financial performance of the organization. This study found some evidence of monitoring of activities in the form of audited financial books, proper use of resources at departmental level, the presence of the monitoring team, regular performance monitoring of financial controllers, and regular performance inspection. However, these activities are theoretically acknowledged and practically, as observed by one interviewee:

…of course like in any microfinance institution, there are guidelines that promote adherence to standards in operations. We have the auditors in place, who give their opinion on the different activities of the institutions. However, the irregularities that are reported annually in external auditors reports gives enough evidence that monitoring is not as strong as it ought to be…

This excerpt is a suggestion that monitoring of activities has its hold in the institution but those in charge of the tasks are lacking in its implementation. The findings disagree with (Katushabe, 2016; Rafindadi & Olanrewaju, 2019; Ssebakumba, 2013) all of which shows that appropriate supervision, and well done monitoring during a financial year, is key for financial performance. The practical importance of monitoring is to ensure that all the organizational resources are rightly used for the goals of improving performance in the organization. The view that monitoring has a profound effect on financial performance is not always the same for all institutions, especially when the practice is not well done. Earlier studies that contradict with this perspective (Muhunyo, 2018; Wang & Hooper, 2017), shows that this depends on the quality, and efficacy of staff. The findings also do not agree with Avortri et al (2019), who concluded that for monitoring to translate into desired performance, it should have supportive supervision. These studies hence disagree with this current study findings that do not significantly affect financial performance, but premise on the fact that failure to support financial performance can be a result of lack of cooperation from staff, as well as laxity in monitoring teams. Laxity in monitoring which could be as result of low levels of motivation, poor pay, corruption, among other factors, will consequently result into low financial target achievements, as experienced at Tujijenge Financial Services Ltd.

5.2 Summary of findings

The major purpose of the study was to find the effect of internal controls on financial performance. The overall effect of internal controls on financial performance was 50.7%, as provided by (R Square = .507). Risk management accounts for 34.9% of the variations in financial performance (Beta =.349; sig. <.05). Control activities accounts for 10.3% of the variations in financial performance (Beta = .103; sig >.05) but effect is not significant. Control environment accounts for 20.1% of variations in financial performance (Beta = .201; sig. <.05).

Monitoring of activities accounts for 19.2% of the variations in financial performance (Beta = .192; sig. >.05) but the effect is not significant.

5.3 Conclusion

The study was conducted at TFS, and the conclusions are drawn on a response rate of 83% constituting management, beneficiaries and staff from all departments of the institution. Internal controls significantly affect the financial performance of micro financial institutions. The most influential factor of the internal controls are risk management and control activities. Implicitly, micro finances in Uganda that enforce risk management and control activities perform better financially than those which do not enforce them.

Risk management significantly affect financial performance of microfinance institutions. Most importantly, institutions that have established financial controls desks, with specific officers to analyze desks are likely to register improvements in their financial performance. However, the fact that not all staff consider risk management seriously many at times limit the effectiveness of risk management in microfinance institution.

Control activities do not significantly affect financial performance in microfinance institutions. In real practice, microfinance institutions in Uganda that have emphasized control activities as a means to improve their financial performance are least likely to achieve their targets. This is possibly because control activities are often confused by implementing staff as routine roles of financial controllers and auditors, and hence not give the attention they do deserve.

Control environment significantly affects financial performance of microfinance institutions. This study confirms that microfinance institutions that over emphasize control environment are more likely to realize the desired financial performance goals. The high effectiveness of control activities in effecting financial performance is possibly due to the fact that these constitute and streamlines the process of undertaking ICs and guide financial transparency, accountability and staff resilience.

Monitoring of activities does not significantly affect financial performance in microfinance institutions. This study provides evidence that microfinance institutions in Uganda, which give attention to monitoring of activities are likely to meet their desired financial performance goals. The effectiveness of monitoring of activities in influencing financial performance is premised on prioritizing accuracy and competence of service delivery, raising the awareness of ICs among all employees in the institution, and delegating junior staff, which improves their skills in overseeing internal controls.

This study contributes empirical evidence on the role of internal controls in promoting financial performance in microfinance institutions. Accepting the hypotheses that risk management and control activities affect financial performance contributes to the relevancy of the already established theories in explaining variations in financial performance. Findings can help audit departments to strengthen risk management and control activities at department level.

5.4 Recommendations

This study has found that control activities do not significantly affect financial performance in Tujijenge Financial Services Ltd. Therefore, this study recommends that management and employees in financial institutions should find out the reason why these do not support financial performance, yet they constitute the indispensable control system. They (control activities) need to be re-engineered, if they are to have a profound influence on the financial performance of the institution.

The study observed that risk management is fundamental in financial performance of microfinance institutions, and more than a third of financial performance achievements attained depended on how risks are managed. Therefore, there is need to emphasize risks management practices at TFS, especially through appropriate risk assessment, forecasts, and, genuine appraisals and analysis by the financial controllers.

Relatedly, results revealed that one-fifth of the financial performance attained at TFS was linked with control environment aspects within the internal controls of the institution. Thus the researcher considers improvement of control environment vital for TFS, if it is to attain desirable financial performance. Financial controllers, especially accountants assisted by the auditors need to guide the loan officers and other junior staff on being competent, how to use available electronic systems, and provide regular delegation opportunities. This in a way can improve control environment, and enhance financial performance of the organization.

The study has found that monitoring of activities does not affect financial performance microfinance institutions. From several descriptive findings, monitoring was revealed as vital aspect of ICs, and so, this study recommends than management of TFS should improve and practice effective monitoring of the IC activities. There is need to introduce monitoring tools that fit the financial performance operations of Tujijenge Financial Services Ltd.

This study has found a low evidence of a clear process of managing financial records at the institution. The researcher recommends a routine follow up by heads of departments on financial officers responsible for records management. This can be done using motivation and punitive measures like rewards and warning letters respectively.

5.5 Areas for future research

The study has found some evidence of financial mismanagement in some field areas. Future researchers should consider assessing the financial management in Tujijenge Financial Services Ltd.

The study has found some evidence of unauthorized and un-approved expenditure at the branch which can be attached that even other branches are having the same issues. Future researchers should consider assessing the effectiveness of FMIS in the management of funds in Tujijenge Financial Services Ltd.

The study found low evidence of accountability. Future researchers should investigate why accountability is not followed in Tujijenge Financial Services Ltd.

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APPENDIX I: PARTICIPANTS' LETTER OF CONSENT

Uganda Christian University,
P.o Box 4
Mukono, Uganda Email:
info@ucu.ac.ug
March 01, 2025
Dear respondent,

Seeking your consent to participate in the Study

Greetings! I am writing to seek your consent to be part of this study. I am a student pursuing a Bachelors degree of Business Administration at Uganda Christian University. As part of the requirement for this award, I am undertaking a study on the topic, **"Internal controls and financial performance at Tujijenge Financial Services Ltd, Mbale district"**. As an employee of Tujijenge, you have been selected to participate by providing your opinions through answering the questions in the questionnaire below attached.

Please feel at ease to give your true opinion as this is just an academic study and your responses will be treated for that purpose. Your views will be treated with gratitude and great confidentiality, and in case of need for the outcome of this research you can contact me on my phone number. If you are willing to be part of this study, please sign the tear off portion below, and return it to the researcher.

Thank you for your cooperation in this matter in advance.

Sincerely,

Amagoro Caroline

Student/Researcher

……Tear off portion…….

I agree ………………………………………….. Signature ……………………………

My availability will be on: Day…………………………Time……………………….....

APPENDIX II : QUESTIONNAIRE FOR STAFF AT KABALE MUNICIPAL COUNCIL

Dear Sir/Madam

My name is Amagoro Caroline of Reg no. S23/MUC/BBA/053, a student of Uganda Christian University pursuing a Bachelor's degree in Business Administration. As part of the requirements for this award, I am undertaking a study on the relationship or the effect of internal controls on financial performance of Tujijenge Financial Services Ltd. In relation to this study, I am contacting you for relevant information about the topic. Your responses and information will be gratefully appreciated and treated with great confidentiality for the purposes study.

SECTION A: Bio data information about the respondents

1. Gender Male [ ] Female [ ]

2. Level of Education

Certificate [ ] Diploma [ ] Degree [ ] Masters [ ]

Other (Specify)………………………………

3. Age bracket

18-35 Years [ ] 35-60 Years [ ] above 60 years [ ]

4. Number of Years in working with TFS

Less Than One Year [ ] 1-5 Years [ ]

6-10 Years [ ] 10 Years and above [ ]

For sections B to E use scale below to give the extent to which you agree or disagree to the information provided in Table. Rating scale. ***1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree***

SECTION B: Risk Assessment

N/S	Item	1	2	3	4	5
B1	Risks are identified in terms of occurrence likelihood					
B2	We are trained to forecast financial risks					
B3	The risks are assessed basing on visible consequences					
B4	The risks are assessed in terms of achievement of objectives					
B5	There are strong risk assessment measures at each financial control desk					
B6	Risks that occur are carefully analyzed by all staff					
B7	Senior officials assist junior staff to analyze risks					
B8	Financial controllers communicate likely risks to all staff					

B9. How have the risk assessments done in Tujijenge Financial Services Ltd

Affect financial performance in your institution?

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

SECTION C: Control activities

N/S	Item	1	2	3	4	5
C1	TFS management separates its roles amongst its employees					
C2	At TFS senior staff checks the work employees do under their department					
C3	Authorization is required for every activity done in the institution					
C4	TFS has security that identifies organization assets and minimizes losses					
C5	TFS management weekly checks on employees' level of meeting set targets					
C6	There is a routine check on physical assets of the institution every week					
C7	There is strict adherence to approval and authorization systems put in place					
C8	All financial documents are reviewed for accuracy					

C9. In your opinion, in which ways have internal control activities affected financial performance of your institution?

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SECTION D: Control environment activities

N/S	Item	1	2	3	4	5
D1	There is a clear process in the financial records and management at this institution					
D2	Management provides written guidelines on how staff should handle TFS finances					
D3	TFS management has enough skills to oversee its internal controls					
D4	Employees are made aware of their roles in implementation of the ICS					
D5	Top management and departmental heads delegate their responsibilities to junior staff					

D6	TFS prioritizes accuracy and competent service delivery in regard to control of financial resources					
D7	Management emphasizes adherence at work place and professional ethics among financial controllers at the institution					
D8	Employees exhibit a positive attitude in regard to internal controls requirements at the TFS					

D9. In your opinion, describe how the control environment has affected financial performance of your department in TFS?

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SECTION E: Monitoring and Assessment

N/S	**Item**	**1**	**2**	**3**	**4**	**5**
E1	TFS has a team of supervisors or officers carrying out monitoring and assessments					
E2	There are regular performance inspections by management at TFS					
E3	There is effective monitoring for proper use of resources at each department					
E4	There is continuous performance monitoring process for financial controllers					
E5	Financial books are audited regularly					
E6	All loans and assets are monitored regularly to ensure transparency at TFS					
E7	Staff at TFS do self-assessment and evaluation regarding adherence to performance goals.					

E8. In your opinion, describe how has monitoring and supervision of activities done affected financial performance in this institution?

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Section F: Financial performance

	Item	1	2	3	4	5
F1	Financial controllers staff regular present departmental reports					
F2	The Auditors present financial reports to management in time					
F3	KMC always accounts for unused cash at the end of every financial year					
F4	KMC meets all its short and long term financial obligations whenever they are due					
F5	All finances received at this council are well reported to stakeholders					
F6	All user departments present detailed financial performance reports					
F7	Financial reports are prepared in time					
F8	The local revenue for KMC has increased					
F9	There are reports of financial mismanagement in some divisions of KMC					
F10	Staff at KMC are transparent in their financial performance activities					
F11	There are reports of unauthorized public expenditure at some KMC's divisions					

F12. In what ways have internal controls affected the overall performance of Tujijenge Financial Services Ltd?

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Your time is appreciated

Thank you

APPENDIX III : QUESTIONNAIRE FOR BENEFICIARIES [PUBLIC] TO SERVICES OF TUJIJENGE FINANCIAL SERVICES LTD

Dear Sir/Madam

My name is Amagoro Caroline of Reg No. S23/MUC/BBA/053) a student of Uganda Christianity University pursuing a Bachelors degree of Business Administration. As part of the requirements for this award, I am undertaking a study on the relationship or the effect of internal controls on financial performance of Tujijenge Financial Services Ltd. In relation to this study, I am contacting you for relevant information about the topic. Your responses will be greatly appreciated and treated with confidentiality as it is used specifically for this study purpose.

SECTION A: Bio data information about the respondents

Instruction: Please tick/fill with an appropriate answer

1. Gender   Male [   ]   Female   [   ]

2. Level of Education

Certificate   [   ]   Diploma   [   ]   Degree [   ]   Masters [   ]

Other (Specify)………………………………

3. Age bracket 18-35 Years [   ] 35-60 Years [   ] Above 60 years   [   ]

Section B: Internal controls and Financial Performance of Tujijenge Financial Services Ltd

4. When were you last at TFS to get services?...

5. Did you get the services you wanted from the institution? Yes [   ]   No [   ]

   If no, how did that make you feel?...

6. What are some of the challenges you often get while using TFS facilities or what challenges do you face when applying for loans from TFS?

…………………………………………………………………………………………………

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

7. In your opinion would you think TFS handles its finances well?

Yes [ ] No [ ] Why do you think so?

…………………………………………………………………………………………………

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

8. Have you ever read TFS financial report in the national media/newspapers or do they display their financial reports anywhere for the public to view?

Yes [ ] No [ ]

If yes, did it show a good performance? Yes [ ] No [ ]

If no, what is your take on this? ………………………………………………………………

…………………………………………………………………………………………

9. Do employees of TFS abide to the set guidelines when dealing with the public in matters of finances?

Yes [ ] No [ ]

Why do you think/say so?

…………………………………………………………………………………………………

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

10. In your view, would you consider the employees of TFS as transparent when handling money/financial matters?

Yes [ ] No [ ]

…………………………………………………………………………………………………

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

11. In your dealing with Tujijenge Financial Services Ltd, did its staff monitor the progress of the activities you had taken the money for?

Yes [ ] No

If yes, how often...…..................

12. How do you rate their monitoring effectiveness?

Very effective [ ] Effective [ ] Ineffective [ ] they did not monitor [ ]

13 Do you agree that TFS always accounts for unused cash at the end of every financial year?

Yes [ ] No [ ]

14. Does Tujijenge Financial Services Ltd always reports on how it has utilized the received funds to the beneficiaries (public)? Yes [ ] No [ ]

If yes, how?

…………………………………………………………………………………………………

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

If No, why do you think so?

…………………………………………………………………………………………………

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

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

Your time is appreciated
Thank you

APPENDIX IV: INTERVIEW GUIDE FOR THE FINANCE SUPERVISOR

Venue of interview..

Name of the department:...

Part 1: Introductions

The researcher introduces himself, the topic, and study purpose.

Topic: The effect of internal control systems on financial performance of Tujijenge Financial Services Ltd, Mbale district. The purpose of the interview is to gather views on internal controls and its effect on financial performance of TFS. In the following interview, please respond truthfully as you can.

The respondent introduces him/herself, (give details of bio data, and experience)

Part 2: Specific Questions

Questions on risk assessment and financial performance

1. What are some of the risk assessment activities undertake in your institution?
2. In your opinion, would you consider your risk assessment effective? Why do you think so?
3. In what ways have risk assessment practice affected the financial performance of this institution?

Questions on control activities and financial performance

4. What different internal control activities are undertaken in your ICS at this institution?
5. What internal control activities are important, but not carried out by the staff at TFS?
6. How has the control activities affected financial performance of this institution?

Questions on control environment and financial performance

7. What are the leading control environment activities undertaken at this institution?
8. What internal control environments are not well done at TFS?
9. In which way, has the control environment affected financial performance of TFS?

Questions on Monitoring and Financial Performance

10. How is monitoring and supervision implemented in the ICS in this institution?
11. What are some of the monitoring challenges experienced in your ICS in this institution?
12. How has monitoring processes in this institution affected its financial performance?

APPENDIX V: KREJCIE AND MORGAN TABLE

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

APPENDIX IV: INTRODUCTORY LETTER

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa
MBALE UNIVERSITY COLLEGE.

Office of Academic Registrar

To TUJIJENGE FINANCIAL SERVICES LIMITED - MBALE

Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs. /Miss. AMAGORO CAROLINE Of Registration Number; S23/MUC/BBA/053 pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree BACHELORS DEGREE IN BUSINESS ADMINISTRATION

He/ she is required to carry out an academic research on the topic INTERNAL CONTROLS AND FINANCIAL PERFORMANCE IN MICROFINANCE INSTITUTIONS IN UGANDA - A CASE STUDY OF TUJIJENGE FINANCIAL SERVICES LTD-MBALE

and thereafter produce a well bound hard cover research report (MAROON) in color for undergraduate and three (BLACK) copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.

Thank you.

Yours faithfully,

UGANDA CHRISTIAN UNIVERSITY
23 MAY 2025
ACADEMIC REGISTRAR
MBALE UNIVERSITY COLLEGE

Timothy Akampurira
Academic Registrar