

**EFFECT OF INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF
MICROFINANCE INSTITUTIONS IN UGANDA**

CASE STUDY: NILE MICRO FINANCE (U) LIMITED IN ARUA CITY

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**A RESEARCH DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS
ADMINISTRATION IN PARTIAL FULFILMENT FOR THE AWARD
OF BACHALORS DEGREE IN BUSINESS ADMINISTRATION
UGANDA CHRISTIAN UNIVERSITY**

AUGUST, 2025

TABLE OF CONTENTS

DECLARATION	iv
APPROVAL	v
DEDICATION	vi
ACKNOWLEDGEMENT.	vii
Acronyms/Abbreviations	viii
Abstract.....	1
CHAPTER ONE.....	2
1.0. Introduction.....	2
1.1. Background of the study.	2
1.2. Problem statement.	3
1.3. General objective of the study.....	4
1.4. Objectives of the study.....	4
1.5. Research Questions.	4
1.6. Research Hypothesis.....	4
1.7. Scope of the study.	4
1.7.1 Content scope.....	4
1.7.2. Geographical scope.	5
1.7.1. Time scope.....	5
1.8. Justification.	5
1.9. Significance of the study.	5
1.10. Conceptual framework.....	6
Fig. 1.9.1. The conceptual Framework.	6
1.11. Definition of key terms.	6
1.11.1. Internal control system:	6
1.11.2. Financial performance:.....	7
1.11.3. Internal control activities:	7
1.11.4. Internal control environment:	7
1.11.5. Risk assessment:	7
1.12. Conclusions.....	7
CHAPTER TWO	8


LITERATURE REVIEW.....	8
2.0. Introduction.....	8
2.1. Internal Control System.....	8
2.1.1. The conceptual review of internal control system	8
2.2. Review of related literature.....	9
2.2.1. Internal control activities and segregation of duties	9
2.2.2. Internal control environment.....	9
2.2.3. Risk assessment.....	10
2.3. Financial performance.....	11
2.3.1. Meaning of performance.....	11
2.3.2. Financial sustainability:.....	12
2.3.3. Profitability:	12
2.3.4. Market share:.....	13
2.4. Literature summary and gap	13
CHAPTER THREE.....	14
METHODOLOGY.....	14
3.0. Introduction.....	14
3.1. Research Design.....	14
3.2. Area of the Study.....	14
3.3. Study Population.....	14
Table 3.4.1. Showing the target population and the sample size that were used for the study.	14
3.4. Sample Size	15
3.5. Sampling Techniques	15
3.5.1. Purposive sampling.....	15
3.6. Source of Data.....	16
3.6.1. Primary Data	16
3.6.2. Secondary Data.....	16
3.7. Data Collection Method.....	16
3.7.1. Questionnaire Method.....	16

3.7.2. Interviews Method	17
3.8. Quality/Error Control.....	17
3.8.1. Reliability of the Data.....	17
3.8.2. Validity of the Data	17
3.9. Data Processing and Analysis.....	18
3.10. Research Procedures.....	18
3.11. Ethical Issues.....	19
CHAPTER FOUR.....	19
4.1. Introduction.....	19
4.2. Response rate.....	19
4.3. Biographic Characteristics	20
4.3.1. Gender of the respondents	20
4.3.2. Age group of the respondents.	20
4.3.3. Educational level	20
4.3.4 Working experience	21
4.4 The effect of control environment on financial performance	21
4.5. The effect of risk assessment on financial performance.....	23
CHAPER FIVE	25
5.1 Summary and Conclusion	25
5.1.1. Effect of control activities on financial performance of Nile Microfinance (U) Ltd.	25
5.1.2. Effect of risk assessment on financial performance of Nile Microfinance (U) Ltd.	25
5.1.3. Effect of control environment on financial performance of Nile Microfinance (U) Ltd.....	26
5.2. Recommendations	26
5.3. Area of Further Research.....	27
References	28
APPENDIX 1	31
QUESTIONNAIRE.....	31
Appendix A: Budget estimates.....	34
Appendix B: Study Work Plan	35

DECLARATION

DECLARATION

I Odradria Denis declares that this research dissertation is my own piece of work and has never been submitted to any institution of higher learning for any award for whatsoever.

Sign 

ODRADRIA DENIS

J24/ASC/BBA/008


Date 20/10/2025

APPROVAL

APPROVAL

This is to certify that this research dissertation has been done under my guidance as supervisor and is therefore, ready for submission.

Academic supervisor

Signature: 

Date: 12/11/2025

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DEDICATION

I dedicate this research dissertation to my dear Brother Eyotu Bernard for his caring and loving support he rendered me during the academic journey as well.

May the Almighty God be with you!

ACKNOWLEDGEMENT

I wish to express my sincere gratitude to the entire management and administration of UCU for their good initiative to establish the University at our door step in West Nile region. The University is of great importance as far as Education is concerned in the region and the Country as a whole.

I would also like to acknowledge the contribution of the following: Mr Ayikobua Samuel who was available all the time for technical advices in the academic struggle; Mr. Asiku John, my academic supervisor who has helped me a great deal in producing this research report;

May God bless you all!

Acronyms/Abbreviations

BOU	Bank of Uganda
ICS	Internal control system
MFIs	Microfinance institutions
OAG	Office of Auditor general
UCU	Uganda Christian University

Abstract

The study examined the effect of internal control system and financial performance of Microfinance institutions in Uganda, Nile Microfinance being the Case study. The objectives of the study were: To assess the effect of control activities on financial performance of Nile Microfinance (U) Ltd. To examine the effect of risk assessment on financial performance of Nile Microfinance (U) Ltd. To assess the effect of control environment on financial performance of Nile Microfinance (U) Ltd. A cross sectional survey design was adopted using the quantitative method. The study population will be 36 consist of. The sample size is 33. Simple random sampling technique will be used to select the Nile Microfinance institutions top management workers while purposive sampling was be used to select the cashiers and loan officers. Data was collected using questionnaire survey. Data analysis involved use of descriptive analysis. The major findings were that the effect of control environment on financial performance, the effect of risk assessment on financial performance and the effect of control activities on financial performance. Control environment including separation of duties lead to low chances of engaging in fraudulent behaviors by employees. Through effective risk assessment, the financial institution can understand the potential impact of these risks and prioritize their resources to manage them appropriately. Control activities play a critical role in ensuring the accuracy and reliability of financial statements. The researcher concludes that there is a significant positive relationship between internal control systems and the financial performance of Microfinance financial institutions in Uganda. To enhance the effects of the internal control system on finance performance of Nile Microfinance (U) Ltd, enhance monitoring mechanisms; strengthen the credit risk management and; regular review and consistent updates on loan portfolio.

CHAPTER ONE

1.0. Introduction

This chapter presents background to the study, statement of the problem, purpose and objectives, research questions/hypotheses, scope of the study, justification, significance and conceptual framework.

1.1. Background of the study.

According to Mawanda (2010), he states that internal control system in place and enforces proper leads to improved financial performance. He argues that properly instituted internal control system improves the reporting processes and also gives rise to reliable reports; which enhances the accountability function of management of an entity.

Globally, the advancement in technology has become the hallmark for businesses today and the banking sector and the banking sector is no exception. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. The expansion of business, globalization and the advanced technology also exposes business to increased risk, fraud, alterations and other irregularities. This has made internal controls an unavoidable to maintain by every business and financial institutions.

Internal control systems in Uganda began in period of colonialism as London was made base for control of activities carried out by colonial masters in their protectorate- Uganda (Office of the Auditor General, 2016). The year 1929 was also characterized by the established of external authority that supervised and controlled staff for the British administration in Uganda, any performance risks or poor financial reporting at work would be detected and controlled based on how central commanding authority in Britain preferred for example loss of revenue, fraud and financial impropriety . However, ever since different Acts have been put in place to ensure that financial performance is enhanced and adhered to; internal control systems are vital part of a public or private sector institutions' management processes. They help organizations to: prevent fraud and errors, minimize wastage, strengthen asset custody, ensure the dependability of accounting data and maintain reliable accounting records.

Financial performance is the achievement of the company's financial performance for a certain period of covering the collection and allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. Financial performance started its roots in accounting practices way back 15th century, due to industrial revolution significant changes to financial performance evaluation, with the new accounting standards and regulations. It is influenced by environment by the economic environment which includes the interest rates, inflation and economic growth.

Financial performance, the company's ability to manage and control its own resources. Cash flow, balance sheet, profit-loss, capital change can be the basis of information for corporate managers to make decisions. It is important to understand fundamental analysis and technical analysis, it is necessary to learn finance to understand the company's financial behavior through economics, financial management and accounting. Financial is the company's ability to manage and control its resources (IAI, 2016).

The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm's performance and position that is useful to a wide range of users for assessing the stewardship and making economic decision (Davies, 2005). There is still big challenge in informal sector, where many financial institutions are unable to exhibit total internal control system hence affecting their growth and development in Uganda.

1.2. Problem statement.

Internal control system is a problem to many financial institutions in Uganda which is evidenced in their inability to complete accounting reports. This results in failure to improve financial performance, lack of internal control system in financial institutions can be portrayed in different ways. These include; **insufficient segregations of duties 40%, non-compliance with regulations 15%, the generation of unreliable financial reports 20% and inadequate transaction authorization 20%**. The ideal internal control systems may include control activities, risk management, control environment etc. which result into significant financial performance of MFIs. Therefore, this research set out to examine the effect of internal control system and financial performance of Nile Microfinance (U) Ltd.

1.3. General objective of the study.

The purpose of this was to examine internal control system and financial performance of Nile Microfinance (U) Ltd in Arua city.

1.4. Objectives of the study.

- i. To assess the effect of control activities on financial performance of Nile Microfinance (U) Ltd.
- ii. To examine the effect of risk assessment on financial performance of Nile Microfinance (U) Ltd.
- iii. To assess the effect of control environment on financial performance of Nile Microfinance (U) Ltd.

1.5. Research Questions.

- i. What is the effect of control activities on financial performance of Nile Microfinance (U) Ltd?
- ii. What is the effect of risk assessment on financial performance of Nile Microfinance (U) Ltd?
- iii. What role does the effect of control environment on financial performance of Nile Microfinance (U) Ltd?

1.6. Research Hypothesis.

H0: There is no significant effect of control activities on financial performance of Nile Microfinance (U) Ltd.

H0: There is a no significant effect of risk assessment of financial performance of Nile Microfinance (U) Ltd.

H0: There is no significant effect of control environment on financial performance of Nile Microfinance (U) Ltd.

1.7. Scope of the study.

1.7.1 Content scope.

The study will be carried on the effect of internal control system and financial performance of Nile Microfinance (U) Ltd. The researcher was inclined to identifying the internal control systems as the independent variable and financial performance of Nile Microfinance (U) Ltd as the dependent variables.

1.7.2. Geographical scope.

The study was conducted at Nile Microfinance (U) Ltd on Go down Road Plot 45 Arua city. This place was chosen because it is near to the researcher's home place and thus cost effective in terms of transport and access to the information.

1.7.1. Time scope

The study will be confined to the period ranging from 2020-2025. This time was adequate for the study because the researcher was able to use the past reports and other documents of the organization to collect reliable information to analyze the findings.

1.8. Justification.

This study is justified because internal control systems in micro financial institutions are said to be an important driver for the proper record keeping in financial institutions in order to achieve, but due to poor internal control systems through in adequate proper record keeping and insufficient segregation of duties which has led drop in customers in financial report 2023. This study will therefore, help the researcher understand internal control systems in place at Nile Microfinance Institution.

1.9. Significance of the study.

The research study will help training institutions in understanding the significance of internal control system to financial performance of microfinance institutions.

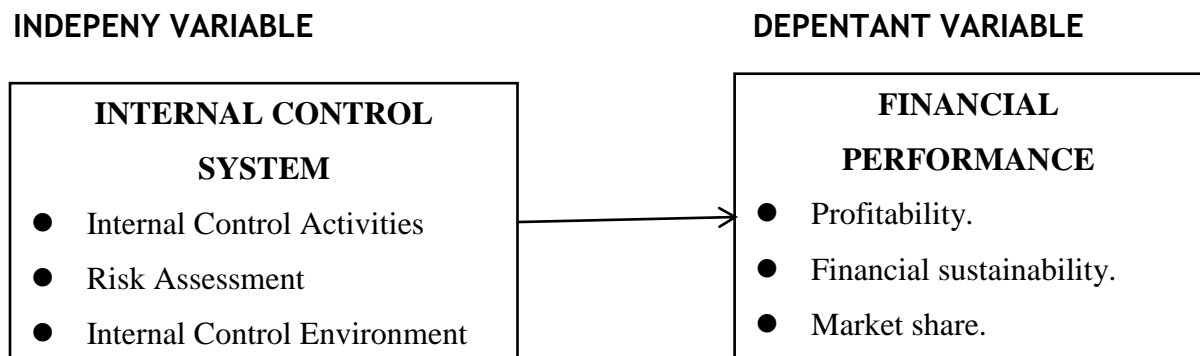
The study will highlight best practices with regard to internal control systems (control activities, control environment and information and communication) and how these relate and affect financial performance. This may assist managers to make vivid decisions for the effectiveness of their organizations as they serve the stakeholders.

The study will provide information based on Nile Microfinance and this may act as a reference point other researchers and academia with regard to exploring internal control systems and financial performance within the organizations and other financial institutions. The study will enable fill existing gap with regard to internal control system and financial performance within the context of non- profit-making institutions or financial institutions. Therefore, it acts as a reference point for any other researchers with regard to internal system and financial performance.

1.10. Conceptual framework.

The conceptual framework of a study explains the system of concepts, assumptions, expectations and theories that support and informs the research. The figure below illustrates the relationship between internal control system and financial performance as independent and dependent variables respectively.

Fig. 1.9.1. The conceptual Framework.



Source: *Adapted and modified from Mawanda 2008 and COSO 2013.*

The conceptual framework above was built to indicate the relationship between internal control system and financial performance as independent and dependent variables respectively.

The figure above presented internal control system as the independent variable operationalized in terms of internal control (internal control activities, risk assessment and internal control environment), While financial performance as a dependent (measured as profitability, financial sustainability, market share and growth & expand in clientele).

1.11. Definition of key terms.

1.11.1. Internal control system: This is process, stimulated by an organization's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations (Committee of Sponsoring Organization of the Treadway Commission, 2013).

1.11.2. Financial performance: This is a measure of institution's strategies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Davies, 2005).

1.11.3. Internal control activities: These are organizational related functions/practices that set out to regulate and guide employee actions and behaviors to achieve set goal and objectives in terms of organizational and clients' perspectives.

1.11.4. Internal control environment: This refers to a management practice where rules, procedures and regulations are applied to streamline actions and behaviors of employees towards the desired management goals.

1.11.5. Risk assessment: It is process used by organizations to identify potential hazards associated to a project and evaluate the risks associated with them. It also assesses how well the organization's internal controls can mitigate those risks.

1.12. Conclusions.

The chapter started with an introduction in which the concept of internal control system was put into perspective, this was followed by the background to the study in the researcher was ably highlight the general view of internal control system which will lead to profitability, financial accountability and timely financial reporting; the problem statement, the research objectives along with the research questions, the conceptual framework, limitations and the definition of key terms.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents key definitions and studies in attempt to understand the effect of internal control system on financial performance of Microfinance institutions. The literature review was obtained from the reliable sources like internet, text books, journals etc.

2.1. Internal Control System

2.1.1. The conceptual review of internal control system

Internal control is a process affected by an organization's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations (Stephen, 2003).

Cahill (2009) describes internal control as a system of internal administrative efficiency which often leads to design of a system that will enhance financial check and balance which will support corrective actions intended by management of the organization. These internal control systems may include having policies and procedures for execution of operations and governance of organizational member's behaviors, having clear staff structure for recruitment and competency development of employees, having security measures to guarantee assets management and protection, establishing proper procedures for record keeping, defining reporting relationships among organizational members, establishing procedures for authorization of transactions and the limits thereon as well as top management supervision(Eke, 2018).

2.2. Review of related literature

2.2.1. Internal control activities and segregation of duties

Control activities are policies and procedures that help ensure management directives are carried out. They include a range of activities as diverse as approvals, verification, reconciliations, reviews of operation performance, security of assets and segregation of duties (Committee of Sponsoring Organization of the Treadway Commission, 2010). Control activities are defined as the set of regulatory and policy frameworks that serve to direct actions and behaviors of stakeholders- employees towards the achievement of the set objectives of the organization (Murakeetharan, 2013).

Whittington and Kurt (2001) assert that activities are vital in ensuring that the internal control systems continue to operate as intended they are ongoing actions that organizational members take to ensure proper execution of operations and are particularly designed to support accurate, complete and reliable financial transaction processing. Internal control activities are measured as segregation of duties, authorization, supervision, physical controls (security measures), and performance reviews (COSO, 2013). In reviewing major banking losses caused by poor internal control, supervisors typically find that these banks failed to observe certain key internal control principles. Of these, segregation of duties, one of the pillars of sound internal control systems, was most frequently overlooked by banks that experienced significant losses from internal control problems. Often, senior management assigned a highly regarded individual responsibility for supervising two or more areas with conflicting interests. For example, in several cases, one individual supervised both the front and back offices of a trading desk. This permitted the individual to control transaction initiation (for example, buying and selling securities or derivatives) as well as the related bookkeeping function. Assigning such conflicting duties to one individual gives that person the ability to manipulate financial data for personal gain or to conceal losses.

2.2.2. Internal control environment

The American Institute of Certified Public Accountant (1994), defined the control environment as an intangible factor and internal control environment being the foundation for all other components of internal control systems, internal control environment looks at providing discipline

and structure and encompassing both technical competence and ethical commitment. Manager must have (Applegate & Wills, 1999). More to this, control environment is seen as the art of regulating actions and behaviors of internal and external stakeholders in order to achieve positive outcomes in terms of effect from internal controls of the organization (Safeway, 2013). Control environment consists of the governance and management functions as well as the attitudes, awareness and actions of those charged with governance and management towards internal controls and its importance to the organization (COSO, 2013). The control environment sets the tone of an organization, influencing the control consciousness of its people. It is a foundation for all other components of internal control, providing discipline and structure. Factors which are often used to measure the strength and quality of an organization's control environment include: integrity and ethical values; a commitment to competence, management philosophy and operation style; involvement of the board and audit committee, organizational structure; assignment of authority and responsibility and human resource policies & procedures (COSO, 2013; Whittington & Kurt, 2001).

Spicer & Pegler (1978), stated that the proper functioning of any system depends on the competence and integrity of those operating it. The staff employed in an organization should be competent and experienced. The company should employ qualified, experienced, competent, motivated and capable people who will have interest in what they do and the company as well as should regard their employees as its assets. These employees should be reliable and responsible in order to ensure efficiency in business.

2.2.3. Risk assessment

Pagano (2010), observed the importance of risk management on financial organizations in creating value for customers and shareholders. Corporate finance had connected the benefits of risk management with the hypothesis of maximizing shareholder value. Ali & Luft (2012), further suggested if there was enhancement in shareholder value then a firm would engage in policies of risk management. Therefore, risk management which was effective in either non-banking firms or in banking entities induced expectations of enhancing the value of the firm and the wealth of shareholders. Pagano focused on only one component of internal control

system, risk management and it was deemed to have concentrated much on enhancing the wealth of shareholders.

In an examination of efficiency in relation to risk in large domestic banks in USA, Linbo Fan (2019), found out that efficiency in profit was responsive to credit risk with insolvency risk and never to risk of liquidity or to the loan products mix. HoHahm (2019), found out

2.3. Financial performance

2.3.1. Meaning of performance

Performance is described as the measure of actual output of an organization against its expected output or goals (Goodwin & Kent, 2006). Due to the compelling needs of organizational certifications, institutions have had to install and implement effective internal controls to facilitate effective and efficient financial performance. A reliability of financial reporting is depended on the efficiency of internal controls that provide efficient transactions, effective bookkeeping and adequate system authorization.

In general terms, performance is a prominent achievement in one specific field of activity. The idea of performance defines how a person or group (s) reach a final conclusion to accomplish a goal referring to Yucesoy and Barabbas (2016), performance presents the totality of activity. The term “performance” is applied in several areas; in economics, financial, technical spotting or social performance. Etymologically, the word “performance” is derived from Latin word “performare” which means to accomplish an activity that has been ordered. It currently comes from the English word “perform” which means to implement something that a certain ability or skills.

According to Stoner (2003), financial performance in financial institution refers to the ability to operate efficiently, profitability, survive grow and react to environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

Hit, *et al* (1996) believes that many firms’ low performance is the result of poorly performing assets is often related to strategic errors made in the acquisition process.

According to Dixon *et al* (1990), appropriate performance measures should which enable organizations to direct their actions towards achieving their

strategic objectives. Kotey & Meredith (1997) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Kent (1994) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Financial performance in this study was conceptualized in terms of financial sustainability, profitability, and market share, and growth & portfolio management.

2.3.2. Financial sustainability:

The indicator of performance of a micro finance institution is its financial sustainability. According to Meyer (2002), there are two kind of sustainability that we could observe in assessing MFIs performance: Operational self-sustainability and financial self-sustainability. Operational self-sustainability is when the operating income is sufficient enough to cover the costs of funds and other forms of subsidies received when they are valued at market prices.

Meyer (2002) indicated, measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses. The attainment of financial sustainability is a key component of institutional financial viability, as identified in a case study of the Federation of Thrift and Credit cooperative Societies in Sri Lanka (Hulme & Mosley, 1996). Attainment of financial sustainability will allow the microfinance institutions to graduate towards providing larger and more complex loans to a more sophisticated clientele.

2.3.3. Profitability:

A profit is financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Profitability in Microfinance is simply the difference between the total revenue and total cost. Thus, the factors which affect financial institutions profitability would be those which affect institutions' revenue and costs. Hence, the impact of the internal and external determinants of institutions profitability will be analyzed with a view to their impact on bank revenue and costs.

In analyzing how well any given bank is performing, it is often useful to contemplate on the return on assets and the return on equity as used by Bourke Thornton (1992). The choice of the profitability ratio will depend on the objective of the profitability measure. The return on assets is primarily an indicator of managerial efficiency. It indicates how capable the management of the bank has been in converting the institution's assets into earnings.

2.3.4. Market share:

An increase in the market price of an asset also called appreciation, growth capital also called expansion capital and growth equity is a type of private equity investment, most often a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets of finance a significant acquisition without a change of control of the business. Institutions that seek growth capital will often do so in order to finance a transformational event in their life-cycle.

2.4. Literature summary and gap

From the literature review done it was found out that realization of positive financial performance depends on whether firms have internal control systems, however, literature notes that noncompliance to the internal control system is one of the major hindrances to the attainment of positive financial performance in Microfinance institutions. There exists a contextual gap where majority of the studies have been conducted in Europe and other parts of African continent and with very few studies in Ugandan context. Therefore, there was need to examine the relationship between the internal control system and financial performance of Microfinance institutions in the Ugandan context with specific focus on the Nile Microfinance (U) ltd.

CHAPTER THREE

METHODOLOGY

3.0. Introduction

This chapter discusses the research design, area of study, study population, sample size, sampling techniques, source of data, data collection methods and instruments, procedures for data collection, data processing and analysis, ethical consideration and.

3.1. Research Design

According to Ordo (2000), a research design is a blue, outline, or system used to produce solutions for research challenges. It serves as a guide for data collection, measurement, and analysis (Kothari, 2003). A cross-section survey design will be used in identify data collection methods and data analysis. The design study is applicable aimed at providing a clearer picture of internal control system. Similarly, element of analytical study designed was employed to establish the financial performance of Microfinance institutions.

3.2. Area of the Study

The purpose of this research was to analyze the effect of internal control system and financial performance of Microfinance institutions case study of Nile Microfinance (U) ltd in Arua city.

3.3. Study Population

Robert ban (2000) defined study population as the total number of items about information described. The study comprised of top management, Cashiers and Loan officers of Nile Microfinance (U) ltd in Arua city which consisted of 36 members. These people had a stake in the institution.

Table 3.4.1. Showing the target population and the sample size that were used for the study.

Category	Target population	Sample Size	Percentage (%)
----------	-------------------	-------------	----------------

Top management	3	2	12
Cashiers	10	10	32
Loan officers	23	21	56
Total	36	33	100

Source: Primary data 2025

3.4. Sample Size

It refers to the exact number of respondents selected from a population to constitute a sample. The researcher will get the sample size from the total population of employees out of 33 of which 2 were top management, 10 were cashiers and 21 were loan officers. This sample size will be determined by the formulae Yamane (1976).

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

$$n = \frac{36}{1+36(0.05)^2}$$

$$n = 33.027523$$

n = 33.03 employees approximately 33 employees

Where,

n is the sample size

N is the total number of employees from Nile Microfinance (U) ltd.

e represents the error which can be either 0.05 or 00.01

3.5. Sampling Techniques

Sampling techniques is the specific process by which the entity of sample is selected (OECD, 2004). The study relied on purposive sampling and simple random sampling since they were convenient and time saving.

3.5.1. Purposive sampling

Purposive sampling is a non- probability sampling method also known as selected or subjective sampling. This is a form of sampling where the researcher selects elements or informants that he/she believes are appropriate or connected to the study (Creswell, 2024). Therefore, it was mainly used for the respondents who are more knowledgeable on the topic

of study. This technique was used in selecting finance and administration as purposively sampled.

3.6. Source of Data

The researcher used both primary and secondary data sources for the study.

3.6.1. Primary Data

According to Kothari (2004), primary data are those which are collected a fresh and for the first time and thus happen to be original in character. It is original in nature and directly related to the study problem and current data. Primary data was because it is reliable and accurate. For example, interviews, surveys, questionnaires.

3.6.2. Secondary Data

Secondary data is defined as information that has previously been gathered and processed using statistics by another party Kothari (2004). These publications are reports on the work of others, published by individuals who were neither firsthand witness nor participants in the events they are describing. Through the examination of reports, such as Newspapers, journals, internet and text books etc.

3.7. Data Collection Method

Data collection method is the process of gathering and measuring of information on targeted variables in an established systematic fashion which then enables one to answer relevant questions and evaluate outcomes (Lescrod *et al.*, 2015).

According to Ngechu (2004) there are many methods of data collection. The choice of this tool and its instrument relies on the characteristics of the subject, research motion, problem questions, objectives design, expected data results and results. Hence every tools and instruments collect specific data.

3.7.1. Questionnaire Method

Questionnaires were used because they are effective data method that allows respondents to give much of their opinion pertaining the research in problem (Dempsey, 2003).

Questionnaires enabled the collection of original data from the sample of the population within a short time and low cost for the purpose of describing the entire population (Ogutu, 2012). Questionnaires were supplied to the respondents with an intention to capture quantitative data

on the effect of internal control system and financial performance of Nile Microfinance (U) Ltd.

3.7.2. Interviews Method

Kumar (2005) defined interviews as a person to person interaction between two or more people with a specific purpose. Interviews involved face to face interaction with the respondents. Interviews were also helpful in situation where the respondents had no enough time.

3.8. Quality/Error Control

3.8.1. Reliability of the Data

The primary goal of reliability is to minimize the risk of having error and avoid biasness in the study. To ensure the reliability of this study, the researcher cautiously interpreted all data or information that was gathered throughout the entire research. The reliability is pre- tested using the chronbach alpha and the researcher tools used were questionnaires, interview guides and observation in collecting data for the study.

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum_{i=1}^K \sigma^2 Y_i}{\sigma^2 X} \right)$$

Where σ^2_X is the variance of the observed total test scores, and $\sigma^2 Y_i$ the variance of component i for the current of persons.

3.8.2. Validity of the Data

Amin (2005) validity is the ability to produce findings that are in agreement with theoretical or conceptual values. The validity of the methods was determined by the use of pre testing/piloting methods in order to allow the researcher get actual facts to solve the problem under study since this method is used to see how accurate the response in the questionnaires are. The validity was pre-tested using the coefficient of validity index (CVI) and the research tools used in questionnaires, interview guides and observation,

whereby the researcher used items which were relevant to calculate CVI for the study.

$$CV = \left(\frac{\text{Items rated relevant}}{\text{Total number of items}} \right) \times 100\%$$

ACVI $\leq 50\%$ is rated unreliable while one rated $\geq 50\%$ is reliable.

3.9. Data Processing and Analysis

After data collection, data will be sorted, organized and questionnaires are classified to ensure accuracy and completeness. The researcher then summarizes the coded data using the Statistical Package for Social Sciences (SPSS), Microsoft Excel Computer Software and STAT statistical packages.

Data analysis is the process of bringing order, structure and meaning to the mass of collected data. The data collected was analyzed using quantitative method.

Data was collected through questionnaires and quantitatively analyzed using descriptive data analysis, that is to say, by use of graphs, cross tabulations and inferential statistics. Data analysis focused on the actual analysis and discussions of the data collected. This involves discussion of the steps involved in analyzing the data collected from the questionnaire. The researcher will review literature, questionnaire design and data analysis in order to get good results.

3.10. Research Procedures

Research procedure is a step by step sequence of activities that will be followed in the order to perform the research (Lescroel *et al.*, 2015)

The researcher will start by identifying the research supervisor where he belonged and developed the research topic which was later presented to the supervisor for the approval.

The research supervisor recorded the chosen topic, the researcher then sought permission for data collection from Nile Microfinance by submitting an official request inform of a letter explaining the purpose to conduct the field study. The researcher personally administer all the approved questionnaires to the respondent who were given a sample to respond on the topic “effect of internal control system and financial performance of Microfinance institutions through his interaction data was collected,

analyzed and presented for submission to Uganda Christian University as agreement for the award of Degree in Bachelor of Business Administration.

3.11. Ethical Issues

- i. The researcher sought for permission from the Nile Microfinance (U) ltd to collect data. Individual employees in Nile Microfinance (U) ltd were approached and permission was sought from one of them to participate in the studies
- ii. To ensure confidentiality, respondents' opinion would be published seeking their opinion about the enterprise.
- iii. To ensure anonymity, respondents were requested not to include their names on the questionnaires.

CHAPTER FOUR

4.0. PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1. Introduction

This chapter presents the study findings on internal control system and financial performance in Nile Microfinance (U) ltd. The first section presented response rate, this is followed by background information about the respondents, and finally descriptive and inferential presentation and analysis of the study in relation to specific objectives.

4.2. Response rate

The study involved 36 respondents in all, both males and females sampled from Nile microfinance (U) ltd which includes top management, Cashiers and Loan officers who were well versed with the internal control systems at Nile microfinance (U) Ltd. 33 respondents of all the selected from 36 participated fully in the study by providing responses to questionnaire. This made a response rate of 91.7% out of actual percentage.

$$\left(\frac{\text{No of questionnaire returned}}{\text{Total No of questionnaire givent out}} \right) \times 100\%$$
$$\left(\frac{33}{36} \right) \times 100\%$$
$$=91.7\%$$

The response rate for this research was 91.7% which was high. This response rate also suggests more accurate survey results.

4.3. Biographic Characteristics

4.3.1. Gender of the respondents

Table 2: Gender for the respondents

Sex	Frequency	Percentage (%)
Male	15	45
Female	18	55
Total	33	100

Source: Primary data

The table 2 above shows that 45% of the respondents were males compared to 55% who were females. The females were many compared to males.

4.3.2. Age group of the respondents.

Table 3: The age composition of respondents.

Age bracket	Frequency	Percentage (%)
21-30 years	5	15
31-40 years	15	45
41-50 years	10	30
Above 50 years	3	10
Total	33	100

Source: Primary data

Results in the table 3 above, show that 15% of the respondents were between the age of 21-30 years, 31- 40 years constitutes the biggest percentage at 45% and between 41-50 years carries 30% while above the age 50 years presents 10%.

4.3.3. Educational level

Table 4: level of education attained by the different respondents

Educational level	Frequency	Percentage (%)
Diploma	18	55
Bachelor Degree	11	33
Master	4	12
PHD	0	0
Total	33	100

Source: primary data

The result in table 4 above, show that 55% of respondents had Diploma, 33% of the respondents had Bachelor degree, and 12% of the respondents were holder of Master while none of the respondents were holding PHD.

4.3.4 Working experience

Table 5: Working experience of the respondents

Working Experience	Frequency	Percentage (%)
1-6 years	15	45
6-10 years	5	15
10-15 years	5	15
Above 15 years	8	25
Total	33	100

Source: Primary data

Results in Table 5, show that 45 % of the respondents have been with the Nile microfinance for the period between 1-5 years and the 15% have been dealing in the financial institution for period between 6-10 years as well as between 10-15 years for the respondents whose percentage stands at 15% while above 15 years who were senior in the field of microfinance institution obtained 25%.

4.4 The effect of control environment on financial performance

Table 6: The effect of control environment on financial performance

Effect of control environment on financial performance	Mean	Standard Deviation
Control environment including separation of duties lead to low chances of engaging in fraudulent behaviors by employees.	4.20	0.738
Control environment promotes effective risk management practices within in an organization.	4.19	0.730
Control environment promotes the adherence to laws, regulations, and internal policies.	3.93	0.828
Control environment enhances the accuracy and reliability of financial reporting processes.	1.88	1.966
Control environment includes controls that determine and detect fraudulent activities.	1.86	1.955
Control environment reduce the risk of	4.20	0.73

fraud and financial mismanagement.		
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Source: primary data

Table 6 shows statistics reflecting different control environment on financial performance in micro financial institutions. Such aspects have been focused as separation of duties lead to low chances of engaging in fraudulent behaviors by employees. The low standard deviation of 0.738 and high mean score of 4.20 indicates that the micro finance institutions consider the routine separation of duties to be Important. It further collaborated with Control environment promotes effective risk management practices within in an organization, when applied to manage such compliance will enable organizations operates efficiently, received a high mean score of 4.19 with a standard deviation of 0.730.

It is also clear that the Control environment promotes the adherence to laws, regulations, and internal policies. This helps to identified risks, with an average of 3.93 and a standard deviation of 0.828. The risk mitigation score is strong in emphasis; though marginally lower than those for the risks assessment and evaluation procedures.

However, there could be some variation in the application of these strategies across the financial institutions. Control environment enhances the accuracy and reliability of financial reporting processes had a standard deviation of 1.966 coupled with a low mean score of 1.88, hence showing an interesting contrast in the data. This can be interpreted to mean that there could be large variations in the application of accuracy and reliability of financial reporting used by the micro financial institution reducing mistakes, fraud, and inefficiencies.

Similarly, the ratings in terms of an average of 1.86 and a standard deviation of 1.955 were equally low when considering the control environment that determine and detect fraudulent activities. This therefore means that while micro financial institutions may be very efficient in detecting errors and frauds in time, others may not be quite successful, thereby making it difficult for them equal measures. In contrast, reduce the risk of fraud and financial mismanagement in the financial institutions are highly regarded, as reflected by the mean score of 4.20 and a standard deviation of 0.730, because they promote accountability, transparency, and decision making process. This would therefore mean that consistent

detecting errors and frauds lies key factor at core of these financial institutions internal control systems.

4.5. The effect of risk assessment on financial performance

Table 7: The effect of risk assessment on financial performance

The effect of risk assessment on financial performance	Mean	Standard deviation
Through effective risk assessment, the financial institution can understand the potential impact of these risks and prioritize their resources to manage them appropriately.	2.46	1.25
The risk rating system provides adequate quantitative data necessary for decision making on credit to borrowers.	2.51	1.25
Effective risk mitigation strategies the bank can protect their performance from adverse events.	2.41	1.19
Inadequate risk management in investments can result in significant losses.	4.29	0.91
Sound risk assessment and management practices can enhance stakeholder confidence and attract investment.	4.25	0.90
Risk assessment ensures that the bank operates within legal and regulatory boundaries, which in turn safeguards its financial performance.	2.31	1.23

Source: Primary data

The information in Table 7 looks at the effect of risk assessment on financial performance. The comparatively low mean scores for a member of items, including through effective risk assessment, the financial institution can understand the potential impact of these risks and prioritize their resources to manage them appropriately (mean= 2.46, SD=1.25) and The risk rating system provides adequate quantitative data necessary for decision making on credit to borrowers (mean=2.51, SD= 1.25) and one noteworthy finding. Similarly, effective risk mitigation strategies the bank can protect their performance from adverse events this may sometimes have prior impact on the finance performance based on the experience of the respondents yielding mean of 2.41 and standard deviation of 1.19.

Inadequate risk management in investments can result in significant losses enable a control system for internal control measure for internal significant higher on ROE compared to others (mean= 4.29, SD= 0.91). Additionally, it is accepted that the Sound risk assessment and management practices can enhance stakeholder confidence and attract investment that help to effective identify and mitigate both financial and regulatory risks (mean= 4.25, SD= 0.90).

Finally, Risk assessment ensures that the bank operates within legal and regulatory boundaries, which in turn safeguards its financial performance. This therefore projects low mean of 2.31 and standard deviation of 1.23.

4.6. The effect of control activities on financial performance

Table 8. The effect of control activities on financial performance

The effect of control activities on financial performance	Mean	SD
Internal control systems are put in place in order to reduce the occurrence of fraud.	3.93	1.82
Control activities play a critical role in ensuring the accuracy and reliability of financial statements	4.19	0.73
They help maintain the integrity of financial data by enforcing proper recording, classification, and valuation of transactions.	1.86	1.95
Control activities act as a means by which organizations resources are directed, monitored and measured.	4.20	0.73

Source: Primary data

The table 8 shows the statistics reflecting the effect of control activities on financial performance in financial institutions. Internal control systems are put in place in order to reduce the occurrence of fraud showing mean of 3.93 and SD of 1.82 hence improves the efficiency, Control activities play a critical role in ensuring the accuracy and reliability of financial statements such practices enable the financial systems operate efficiently projecting mean of 4.19 and SD of 0.73.

Similarly, controls activities provides better understanding of financial performance for instance, They help maintain the integrity of financial data

by enforcing proper recording, classification, and valuation of transactions stating the mean of 1.86 and SD of 1.95.

Conclusively, Control activities act as a means by which organizations resources are directed monitored and measured since many financial institutions provide collaboration in enhancing compliance and control measures.

CHAPER FIVE

5.0 Introduction

The study assessed the effects of internal control system and financial performance of Nile microfinance (U) ltd in Arua city. This chapter contains the summary of findings, conclusions and recommendations.

5.1 Summary and Conclusion

5.1.1. Effect of control activities on financial performance of Nile Microfinance (U) Ltd.

Control activities have a significant impact on the financial performance of Nile Microfinance (u) ltd, the research suggest that significant positive impact found out that robust control activities, such as proper authorization, procedures and segregation of duties, are strong predictors and have a significant positive effect on financial performance. The key control activities enable micro financial institutions to run normally. Conclusively, implementing and enforcing strong control activities is critical for enhancing the financial performance of Nile Microfinance (U) ltd.

5.1.2. Effect of risk assessment on financial performance of Nile Microfinance (U) Ltd.

Risk assessment has a significant positive effect on the financial performance of Microfinance institutions (MFIs) in Uganda, including entities like the Nile Microfinance (U) ltd. This helps to mitigate potential losses and improve overall profitability and sustainability. The key effects of risk assessment includes, improved loan portfolio quality particularly the credit risk assessment, helps financial institutions to evaluate the creditworthiness of potential borrowers, monitor existing loans, and identify potential problems early. Ensure regulatory compliance to allow institutions are liaison to financial regulations set by the bodies like BOU. Better decision making such that crucial data for strategic decision making thus,

appropriate interest rates, determine collateral requirements and diversifying loan portfolios.

Conclusively, Nile Microfinance (u) ltd require diligent and effective risk assessment is an indispensable component of sound of financial management, directly influencing its capacity to achieve sustainable financial performance.

5.1.3. Effect of control environment on financial performance of Nile Microfinance (U) Ltd.

A strong control environment generally has a positive and significant effect on the financial performance of microfinance institutions (MFIs), the key factors within the control environment includes; integrity and ethical values of leadership and staff, commitment to competence and adequate training of employees, a strong of board of directors and appropriate organizational structure and clear assignment of authority and responsibility.

In conclusion, better control environment set in place enables organizations to provide positive association in line with their future performance.

5.2. Recommendations

To enhance the effects of the internal control system on finance performance of Nile Microfinance (U) Ltd, the following recommendations are suggested based on general MFI research in Uganda.

Enhance monitoring mechanisms: Research often reveals that internal control systems in MFIs can be less efficient due to lack of close monitoring. The company should implement continuous and periodic surveillance of internal controls and operations.

Strengthen Credit Risk Management: Given the crucial role of credit risk assessment in MFI performance, Nile Microfinance should ensure rigorous credit risk controls and assessments for all loans. This includes obtaining collateral securities where appropriate and using credible credit data.

Regularly Review and Update systems: The implementation of internal control systems should be regularly reviewed and updated, especially in areas identified as weaknesses, such as financial records and fraud prevention. Annual or even semi-annual reviews are beneficial.

Improve documentation and communications: Ensure all relevant information is well- documented and effectively communicated across all

levels and departments of the organizations to support informed decision-making.

Invest in technology: Adopting modern technology can improve internal control processes, such as the use of integrated information systems, which can enhance efficiency and the reliability of financial data.

5.3. Area of Further Research.

Contribution of internal control systems on productivity of commercial banks

The roles of internal control systems on the performance government institutions

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APPENDIX 1

QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY SCHOOL OF BUSINESS

I am **Odradria Denis**, a student of Uganda Christian University Arua- Campus, pursuing Bachelor of Business Administration. I am carrying out a research on the effect of internal control system and performance of Micro finance institutions in Uganda. You are among the respondents randomly selected to answer the questions. The information given will be treated with at most confidence and for academic purpose only.

SECTION A: Demographic Data

Please tick (*/*) in the appropriate as the most agreed answer to the following statements.

1. Gender of the respondent.

Male

Female

2. Age group of the respondent

21-30 years

31-40 years

41-50 years

Above 50 years

3. Education level of the respondent.

Diplomalevel

Bachelor level

Masters level

PHD level

4. Work experience of the respondent

1-6 years

6-10 years

10-15 years

above 15 years

SECTION B

Rate your degree of agreement on the effect of internal control systems and financial performance of Nile Microfinance Ltd. Using a scale of 5 = strongly agree, 4 = Agree, 3 =Not sure, 2 = Disagree, and 1 = strongly disagree.

A	The effect of control environment on financial performance	5	4	3	2	1
	Control environment including separation of duties lead to low chances of engaging in fraudulent behaviors by employees.					
	Control environment promotes effective risk management practices within in an organization.					
	Control environment promotes the adherence to laws, regulations, and internal policies.					
	Control environment enhances the accuracy and reliability of financial reporting processes.					
	Control environment includes controls that determine and detect fraudulent activities.					
	Control environment reduce the risk of fraud and financial mismanagement.					
B	The effect of risk assessment on financial performance					
	Through effective risk assessment, the bank can understand the potential impact of these risks and prioritize their resources to manage them appropriately.					
	The risk rating system provides adequate quantitative data necessary for decision making on credit to borrowers.					
	Effective risk mitigation strategies the bank can protect their performance from adverse events.					
	Inadequate risk management in investments can result in significant losses.					
	Sound risk assessment and management practices can enhance stakeholder confidence and attract investment.					

	Risk assessment ensures that the bank operates within legal and regulatory boundaries, which in turn safeguards its financial performance.				
C	The effect of control activities on financial performance				
	Internal control systems are put in place in order to reduce the occurrence of fraud.				
	Control activities play a critical role in ensuring the accuracy and reliability of financial statements				
	They help maintain the integrity of financial data by enforcing proper recording, classification, and valuation of transactions.				
	Control activities act as a means by which organizations resources are directed, monitored and measured.				

Thank you

APPENDICES A

Appendix A: Budget estimates

Item	Quantity	Unit Cost	Total Cost
Subsistence Allowance	3 months	50,000	150,000
Travel	4 months	60,000	240,000
Data analysis	1	150,000	150,000
Secretariat services	1	50,000	50,000
Report production and printing	1	80,000	80,000
Total			670,000

Appendix B: Study Work Plan

S/N	ACTIVITY	TIME LINE												RESPONSIBLE PERSON
		2025						2024						
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct			
1	Topic selection												Researcher	
2	Proposal writing												Researcher	
3	Presentation and Submission												Researcher	
4	Approval												Supervisor	
5	Data collection												Researcher	
6	Data analysis												Researcher	
7	Report writing												Researcher	
9	Submission												Researcher	
10	Dissemination												Researcher	