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## Internal Controls, Managerial Competence and Financial Performance of Abu Sacco

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### Abstract

**Purpose:** This study aimed at establishing the relationship between Internal controls, managerial competence and financial performance of ABU SACCO Mbarara.

**Methodology:** A cross-sectional study design was adopted and based on a population comprised of ABU SACCO coverage in her 6 branches. A sample size of 35 respondents was selected. The study used the questionnaire to collect data and extracted financial data from audited financial statements of the SACCO and management reports over the four years 2014-2017. Correlation and regression analysis were done with the use of SPSS ver. 21, PMT tool was used to analyze secondary data.

**Findings:** The study findings reveal that there is a significant positive relationship between internal controls and financial performance at ABU SACCO ( $r=.515$ ,  $p<.01$ ). This means that any positive change in internal controls is associated with a positive change in financial performance. The findings further revealed that there is a significant positive relationship between managerial competence and financial performance at ABU SACCO ( $r=.765$ ,  $p<.01$ ). All the dimensions of internal controls have a positive significant relationship with financial performance apart from control activities and control environment, plus the dimensions of managerial competence have a positive significant relationship with financial performance apart from interpersonal skills. A regression analysis established that internal controls and managerial competence explain 58.4% of the variations in the financial performance of ABU SACCO. The implication is that 41.6% is explained by variables not considered in this study such as; political and inflation factors.

**Keywords:** *Internal controls, managerial competence and financial performance*

## Background of the study

Internal control was first defined in 1949, by the American Institute of Certified Public Accountants (AICPA, 2013) as the process designed, implemented, and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives concerning reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. According to (AICPA, 2013), Internal control is a process 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.

Achievement of the organization's objectives is based on a good foundation of an internal control system. The reasons for the need of such intact internal control systems lie in the agency theory and risk management. Jensen and Meckling (1976) investigated that demand for control mainly derives from the occurrence of agency costs which arise whenever an outside investor exercises control over an organization in a form different from that of a manager. The investor takes the role of the principal, whereas the manager can be seen as the agent. Conflicting relationships between principals and agents generate these costs, and can only be reduced by monitoring and bonding mechanisms through tying managers to organizational performance

Treba (2003) explained that weaknesses in internal control systems (control over the payroll, over expenditure commitments, and over procurement processes) lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money will be attained in public spending. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed that the absence of internal controls or the presence of weak internal controls is the primary cause of many cases of fraudulent company financial reporting. The widespread global corporate accounting scandals in recent years inform this study. Notable cases include Enron and WorldCom in the USA, Parmalat in Europe and Chuo Aoyama in Asia. In South Africa, accounting scandals have been recorded in JCI and Randgold and Exploration companies. In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating company's profits for some years before the company's foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate, and informative corporate financial reports periodically (Hayes et al., 2005).

The study was guided by two contrasting, and perhaps supplementary theoretical perspectives that help to explain the shape and form of various internal control systems (ICSs) of organisations. Agency theory was originally developed by Jensen et al., (1976). According to this theory, the firm is viewed as a nexus of contracts between different stakeholders of the organisation (Ibid, 1976). Thus, the owners and executives of an organisation may have differences in opinion with regard to the best interests of the organisation. Consequently, executives may be seen as using organisations to get as much as they can at the expense of the owners. Agency theory explains the application of controls as being primarily based on economic cost-benefit analysis, where controls are installed in order to reduce information asymmetries between principals and owners. Additionally, the theory has been used to explain

demands for monitoring controls such as the financial statement audit, external directors on boards and committees, audit committees, internal audit, and compensation schemes (Arwinge, 2013). Thus, internal controls, financial reporting, budgeting, audit committees, and external audits are some of the many mechanisms used in business to address agency problems (Jensen & Payne, 2003). Policymakers and control professionals can also be expected to find agency theory more helpful in diagnosing situations and designing controls.

Institutional theory is the other theoretical orientation that offers a contrasting explanation that may be used to understand the adoption and design of control practices within organisations. The theory, more sociological, originates from the work done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). The theory states that companies adopt systems and management practices that are considered legitimate by other companies in the same industry (Etengu & Nasieku, 2015). Thus, organisational practices are either a direct reflection of, or response to, rules and structures built into their larger environment. Arwinge (2013) further documents that in as far as institutional theory is concerned, management is not only concerned with cost-benefit concerns and risk-reward trade-offs but also looks at management fads, industry norms and firm traditions when adopting and designing new control practices.

Internal controls consist of five components, namely:

**Control environment-** This is the foundation for all the other components of internal control. It comprises of factors like integrity, and ethical values of personnel tasked with creating, administering and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy, and operating style and organizational structure.

**Risk assessment process,** this refers to the careful assessment of factors that affect the possibility of objectives of the organization not being achieved. It refers to the identification and analysis of relevant risks associated with achieving the objectives of the organization. Risk assessment is the process of identifying and analysing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principle, information and communication systems. Internal controls require that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities.

Organisations should adopt internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and control the business. Effective communications should occur in a broad sense, with information flowing down, across, and up within all the sections of the organization (Millichamp, 1999).

Control activities refer to policies, procedures, and mechanisms put in place to ensure management directives are properly carried out. Appropriate and accurate documentation of policies and procedural guidelines helps to determine how the control activities are to be executed. Monitoring of controls is the process of assessing the quality of the internal control structure over time. Since internal controls are processes, it is usually accepted that they need to be adequately monitored in order to assess the quality and the effectiveness of the systems performance over time. Millichamp (1999) stated that the term segregation of duties is used for



internal duties. One of the prime means of control is the separation of those duties which would if combined would enable one individual to record and process a complete transaction. This practice reduces the risk of intentional manipulation of accounts and increases the element of checking. This makes fraud more difficult to be committed because one transaction is completed by different employees.

Spicer and 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 an interest in what they do and the company as well should regard their employees as its assets. These employees should be reliable and responsible in order to ensure efficiency in business operations.

Information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Microfinance institutions in Uganda have attracted many private participants to deliver financial services to the urban and rural people who cannot access traditional banking services from commercial banks. Consequently; leading to development of the industry and the transformation of commercial microfinance institutions in Uganda, the services are now largely offered as a business. Thus donors have stopped giving grants for loan funds (Bank of Uganda annual report, 2009). ABU (pseudonym) Cooperative savings and credit society limited is the selected representative of the microfinance institution as a case study

ABU SACCO is a registered savings and credit cooperative society that was officially registered in 2002 by individual shareholders with technical support from Uganda Cooperative Alliance Head office is situated in Western Uganda, about 30Km from Mbarara Town along Mbarara Ibanda road. It is members governed by 9 Board members, 46 employees and recovery rate is at 78%, 6 branches (ABU SACCO annual report 2017)

**Table 1: Financial performance of ABU SACCO**

Years	Actual Profit After Tax	Percentage Decline
2017	600,002,789	9%
2016	661,362,665	29%
2015	936,113,081	4.5%
2014	980,247,959	

*Source: ABU Sacco Financial Reports for the Period 2014-2017*

Table 1 indicates that between 2014 and 2017, there has been a decline in the financial performance as shown by the respective percentages (percentage decline column). Thus this study is intended to investigate whether the discrepancies in the net profit after tax above relate to weak internal controls and managerial competence. ABU SACCO was experiencing low levels of credit business performance in terms of slow credit product innovations, slow

membership growth and unreliable credit reports (ABU SACCO, 2016). For instance, in testing of transactions by auditors, it was noted that the lending policy did not specify terms and conditions of staff loans but Ushs 87,912,500 (Eighty seven million nine hundred twelve thousand five hundred shillings) was disbursement to the SACCO staff and also noted that some staff members had loans which their repayment period was beyond their contract expiry (ABU SACCO, 2016).

In addition to this, the Audit Report of 2017 also brings expenditures amounting to UGX 101,025,000 (One hundred one million twenty-five thousand shillings only) in all branches incurred on various samples of payments were not supported by any accountability and the authenticity of the transactions could not be confirmed (Audit report, 2017).

These audit issues are suspected to result from weak internal controls and managerial competence. The situation therefore necessitated to investigate whether this state of affairs could be attributed to gaps in internal controls and managerial competence at ABU SACCO.

### **Purpose of the Study**

The research was aimed at establishing the relationship between internal controls, managerial competence, and financial performance of ABU SACCO; specifically, the study was to; establish internal control procedures followed by ABU SACCO; examine the relationship between internal controls and financial performance at ABU SACCO and there after finally examine the relationship between managerial competence and financial performance at ABU SACCO.

The study consisted of assessment of internal controls, managerial competence and financial performance at ABU SACCO with a brief that strong internal controls, managerial competence foster achievement and maintenance of business health (financial performance). The study had internal controls and managerial competence as independent variables, and financial performance as the dependent variable. The study was conducted at ABU SACCO offices located in Mbarara and her branches offices in the neighbouring districts of Ibanda, Isingiro and Kiruhura. The study focused on the one-year period which was considered to be sufficient time for proposal writing, data collection, and deep analysis of the collected data.

### **Justification of the Study**

Although considerable research has been devoted to internal controls, and performance of institutions (general), rather less attention has been paid to internal controls, managerial competence and financial performance of microfinance institutions. This study concentrated on internal controls, managerial competence and financial performance of ABU SACCO and how the various departments within the SACCO adhere to the policies formulated by management. Many Microfinance institutions have unexpectedly closed because of internal management weaknesses, which lead to gross violation of institution regulations. They fall short of capital requirements stemming from problems of poor loan documentation, inadequate provisioning, insufficient risk assessment capacity, internal fraud that negatively affect their operations

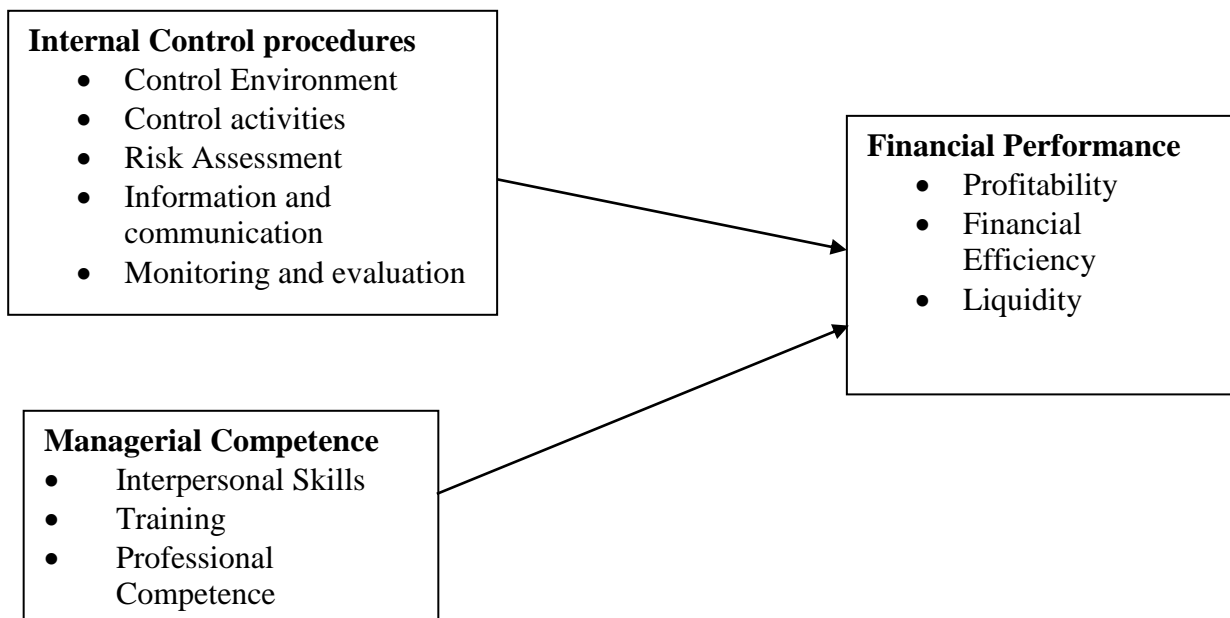
### **Significance of the Study**

The findings of the study will help ABU SACCO and financial institutions in general to improve performance in their organizations. It will help the employees of these SACCO to identify the

appropriate interventions in key areas. The study will also help policy makers concerned with the performance of financial institutions or SACCOs engaged in the sector of good governance and accountability. These institutions can generally use the study to make appropriate policies in private sector organizations. The research will also contribute to the body of knowledge in financial performance reporting.

### Conceptual Framework

The conceptual framework reflected the study variables which explain the problem. In the conceptual framework (figure 1), internal controls and managerial competence are independent variables, whereas financial performance “the dependent variable”.



**Figure 1: The Conceptual Framework**

*Source: Adapted from the literature of Glance (2006), Amudo (2009), Jokipii (2010), Jong-Hag et al. (2009)*

Glance (2006) indicates that poor internal controls lead to asset misappropriations, corruption, organized fraud and fraudulent financial performance reporting. Amudo (2009) indicates that internal controls are usually responsible for organizations’ failure to achieve operational efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulations. Jokipii (2010) concludes that internal controls are a set of procedures, methods and measures designed by Boards of Directors and executive management to ensure the achievement of organization’s overall objectives. Jong-Hag et al. (2009) indicate that the muscle of an organization’s internal controls is determined by human capacity to handle internal control functions.

The framework also explains how managerial competencies inform of employee interpersonal skills, training, professional Competence affect financial performance in form of the profitability

financial efficiency and liquidity. Opler and Titman (2004) asserted that the efficient use of firm resources depend on the decisions of the management team. A firm may achieve better rents not just because it has access to resources but because the core competencies utilize these resources (Penrose, 2007; Enders, 2004). The ready supply of competent and qualified managers in the managerial markets act as a yardstick for the incumbent managers to perform well; Enders (2004) reported that differences in firm performance result from management quality. He argues that management competence can therefore be used as a means to explain these differences

## **Literature Review**

### **An Overview on Internal controls**

Over time, researchers have developed different viewpoints regarding the definition of an internal control system. Abernathy and Chua (1996) defined an internal control system as a system that combines different control mechanisms to increase the probability that organizational actors will behave in ways consistent with the objectives of the organizational coalition. The authors analyzed how an organization selects various control mechanisms to obtain an optimal control package.

The control mechanisms range from standard operating procedures over position descriptions, personnel supervision and performance measurement. Besides control mechanisms, ISA 400 defines an internal control system as all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safe guarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information.

Furthermore, the internal control system extends beyond those matters which relate directly to the functions of the accounting system and comprises the control environment and the control activities. The control environment sets a tone of an organisation, influencing the conscience of its employees; providing discipline and structure, whereas control activities are the policies and procedures implemented to help ensure that management directives are carried out (Lindsay & Brownell, 2017). According to the American Institute of Certified Public Accountants (AICPA), Effective controls reduce the risk of asset loss and help ensure that plan information is complete and accurate, financial statements are reliable, and that the plan complies with laws and regulations (AICPA, 2014). According to the KPMG survey (2001/02), internal controls are one of the means by which risk is managed in an organization. It is considered to support employees in the achievement of the organization's objective by responding to significant business, operational, financial, compliance and other risks. The controls should be designed to safeguard the company from fraud and losses and ensure a secure liability management (Kratz, 2008).

### **The Usefulness of internal control system**

The the need of intact internal control systems in organizations lies in agency theory and risk management. Jensen and Meckling (1976) investigated that demand for control mainly derives from the occurrence of agency costs. Agency costs arise whenever an outside investor exerts control over an organization in a differently from the manager. The investor takes the role of the



principal whereas the managers can be seen as the agent. Conflicting relationships between principals and agents generate these costs, which can only be reduced by monitoring and bonding mechanisms either as part of an organization's control system or as corporate governance mechanisms (Kratz, 2008).

There are four purposes of internal control and these include; [a] To promote orderly, economical, efficient and effective operations and to produce quality products and services consistent with the organization's mission; [b] To safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; [c] To ensure adherence to laws, regulations, contracts and management directives; and [d] To develop and maintain reliable financial and management data, and to accurately present that data in timely report. Therefore, if an organization addresses these purposes in developing its internal control system, the organization will most likely achieve its objectives and mission. Failure to adequately address any one of these purposes may put the organization at risk. (International Organization of Supreme Audit Institutions report (IOSAI)

An effective internal control provides a moral compass that guides leaders and staff when faced with ethical dilemmas making it the foundation and building block upon which good corporate governance is built and sustained. Effective internal controls demand an oversight by senior management and board members, and this oversight should be accompanied by an unquestionable commitment to the programme by the two leadership groups, with their behavior being exemplary providing the 'tone at the top' (Cartwright (1999)

In research conducted to analyze the importance of internal control of the Nigeria banks, Hayali, et al., (2013) reported that internal controls help the financial sector in presenting its strong and stable outlook in front of international spectators

### **Internal control Procedures**

A recent study on the components of the internal controls is that by COSO (2013). COSO assert that internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components, namely control environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring are present and functioning (figure 2).The Framework also continues to give the organization's structure, allowing the organization to consider internal controls from an entity, divisional, operating unit, and functional level, such as for a shared services center. Hence, internal control systems are an integral component of the management processes that should be established in order to provide reasonable assurance that the operations are carried out efficiently and effectively (Badara & Saidin, 2013). (James Schaefer CPA, 2010 #5) stress that fraudulent financial statements are often avoided by effective internal controls instituted in place to curb such eventualities



**Figure 2: Components of Internal Controls**

*Source: AICPA (2013)*

### **Control Environment (CE)**

CE is the major aspect of managing an organization. This is because it is a reflection of the attitude and the policies of management in regard with the importance of internal audit in the economic unit (Theofanis *et al.*, 2011). According to the financial management frame work; FMF (2013), the CE includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors (Lynn, 2011). This is the controlled environment of the entity in which operations of the business are carried out (Hassan, 2012). It is this control environment (CE) that keeps anyone in the entity from committing any wrongdoing. The organization structure and accountability relationships are key factors in the CE (Badara & Saidin, 2013).

Without management support, the application of internal controls and operational systems may be less than effective (FMF, 2013). It is management's responsibility to ensure the competency of its personnel which should begin with establishing appropriate human resource policies and practices. Such policies and practices should reflect a commitment to establishing levels of knowledge and skill required for every position, verifying the qualifications of job candidates, hiring and promoting only those with the required knowledge and skills and, establishing training programs that help employees increase their knowledge and skills.

Lynne (2011) also gives a mission as one of the factors under the CE, as being the reason for the organization's existence. It provides a sense of direction and purpose to all organization members, regardless of their position, and provides a guide when making critical decisions. Management should tell employees about the organization's mission and explain how their jobs

contribute to accomplishing the mission (Aldridge & Colbert, 1994). A study conducted by Wainaina (2011), examined the internal control function. He established that, other than the prevention and detection of fraud, internal controls should reflect the strength of the overall accounting environment in an organization as well as the accuracy of its financial and operational records. Kinyua et al., (2015), in their study on the effect of internal control environment on the financial performance of companies quoted on the Nairobi Securities Exchange (NSE), found a significant association between internal control environment and financial performance.

### **Risk Assessment (RA)**

Risk assessment is the process used to identify, analyze, and manage the potential risks that could hinder or prevent an organisation from achieving its objectives. It identifies and analyses of relevant risks associated with the achievement of the management objectives (Theofanis *et al.*, 2011). Similarly, Sudsomboon and Ussahawanitchakit (2009), view RA as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principles. In this situation, management must carefully determine the level of risk to be accepted, and should try to maintain such risk within determined levels. Organizations are required to frequently assess the level of risk they are experiencing to take necessary actions (Badara et al., 2013). After obtaining an understanding of the accounting and internal control systems, the auditor should make a preliminary assessment of control risk, at the assertion level, for each material account balance or class of transactions (International Standards of Auditing; (ISA) 400).

Romar and Moberg (2003) conducted a case study and identified what could have contributed to WorldCom scandal in 2002: unrealistic growth targets when expectations were low, management philosophy was aggressive; inadequate assessment of internal and external factors and objectives before setting aggressive targets; poor segregation of duties; access to data entry and manipulation was not properly segregated, and there was a lack of stringent monitoring of the internal control system and therefore quality of the controls around the posting of journal entries to the general ledger was not identified as weak

Badara et al., (2013) emphasize that an Auditor obtains an understanding of how an organization's RA process, whether it is working as per expectations in the light of business risk or not by considering expected risks, effects of such risks, the likelihood that risk will realize and decisions taken to cater such risks. Management also should evaluate each risk they identify in terms of its significance, likelihood and cause. Significance is a measure of the magnitude of the effect on an organization if the unfavourable event were to occur. When determining the significance of each risk, management should consider the effect of the risk. The effect is the ultimate harm that may be done or the opportunity that may be lost. Managers should quantify this if possible, or at least state the effect in specific terms to help define the significance of the risk.

A study by Ochoge (2011) in Uganda on internal controls and organizational performance: a case of Medipont industries limited identified that the internal controls used in Medipoint Industries Limited were ineffective and unsatisfactory, the level of organizational performance was found

to be inadequate, and a significant positive relationship between internal controls and organizational performance was established to exist

### **Control Activities (AICPA)**

These are policies, procedures and mechanisms that ensure management's directives such as adhering to requirements for budget development and execution, are properly carried out (Aikins, 2011). Proper documentation of policies and procedural guidelines in these aspects help to determine not only how the control activities are to be executed but also provide adequate information for auditors examination of the overall adequacy of control design over financial management practices (Aikins, 2011).

The Internal control over Financial Reporting Guide (ICFR) gives examples of CA, including segregation of duties (Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud; This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing and approving the transaction, and handling any related assets. No one individual should control all key aspects of a transaction or event), the daily deposit of cash receipts, bank reconciliation, approvals, authorizations, verifications, Access restrictions to and accountability for resources and records (Access to resources and records should be limited to authorized individuals), and accountability for their custody and use should be assigned and maintained.

CA can be grouped into four categories: directive, preventive, detective, and corrective control activities (Badara et al., 2013). Directive control activities are designed to guide an organization toward its desired outcome. Most directive control activities take the form of laws, regulations, guidelines, policies and written procedures. Preventive controls however are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing ways to avoid them. On the other hand, Detective control activities are designed to identify undesirable events that do occur, and alert management about what has happened. This enables management to take corrective action promptly.

Socol (2011) mentioned that the administration board and executive management promotes high standards of ethics and integrity, establishing an institutional culture highlighting and demonstrating the importance of internal control on all organizational levels. All employees must be aware of the role they have in the internal control system and must be actively involved in this process. Similarly, Ejoh and Ejom (2014) studied the relationship between internal control activities and financial performance in Tertiary Institutions in Nigeria. The findings of their study revealed no significant relationship between internal control activities and financial performance. Barra (2010) investigated the effect of penalties and other internal controls on employee's propensity to be fraudulent. Data was collected from both managerial and non managerial employees. The results showed that the presence of the control activities, separation of duties increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a "least-cost" fraud deterrent for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost"

fraud disincentives. The results suggest the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on banks' ability to investigate staff fraud and staff life style and fraud detection in Nigeria. The study found that Internal control design influences staff attitude towards fraud such that a strong internal control mechanism is a deterrence to staff fraud while a weak one exposes the system to fraud and creates an opportunity for staff to commit fraud.

### **Information and communication (IC)**

This element cuts across all the other levels of the control system. It is the process of identifying, capturing, and properly communicated of relevant information in an appropriate manner and within a timeframe in order to accomplish the financial reporting objectives (FMF, 2013). Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. However, effective communications should occur in a wider sense with information within the various sections of the organization (Theofaniset *al.*, 2011).

Most of the recent literature on internal control system frameworks concerned on IC as one of the internal control system components, because of their importance in influencing the working relationship within the organization at all levels (Amudo, 2009). Hence, such information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders (FMF, 2013).

Root (1998), expounds on three primary areas within an organization where information documentation is very important: 1) critical decisions and significant events, 2) transactions and 3) system of internal control. Critical decisions and significant events usually involve executive management and such decisions and events usually result in the use, commitment, exchange or transfer of resources, such as those contained in strategic plans, budgets and policies. By recording the information related to such events, management creates an organizational history that can serve as justification for subsequent actions and decisions. (Millichamp, 1999) recommends that Firms should adopt internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and control the business. Effective communications should occur in a broad sense with information flowing down, across, and up within all the sections of the organization.

### **Monitoring (M)**

Internal controls need to be adequately monitored in order to assess the quality and the effectiveness of the system's performance over time (Theofaniset *al.*, 2011). M provides assurance that the findings of audits and other reviews are promptly determined subsequent to implementing internal controls (FMF, 2013). Following Amudo (2009), monitoring of operations ensures effective functioning of internal controls system. Hence, M determines whether or not policies and procedures designed and implemented by management are being carried out



effectively by employees. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures where internal control deficiencies should be reported upstream, with serious matters reported to top management and the board. M should be designed to identify and correct weaknesses in internal control before they can result in a significant misstatement in organizational plan's financial statements (Root, 1993). Organizational monitoring activities always help to address issues such as whether internal controls in place and operating, if establishing policies and procedures will have no effect if they are not implemented and whether the system is working as designed.

Ibid, (2003) argue that strong board monitoring can promote corporate policy and even improve firm performance. Hsu, Hsiao and Li (2009) examined the effect of board monitoring on corporate investment and firm performance and admitted that strong board monitoring for firms with few financial constraints is significantly related to the promotion of corporate investment and to the improvement of firm performance in Taiwan. Furthermore, Bongani (2013) asserts that ICS is the primary accountability and governance tool an organisation (NGO) can establish and use to provide accountability to its stakeholders (donors) and safeguard its asset

### **Managerial competence**

Tuominen et al., (2010) defined managerial competence as the management's ability to implement matters profitably and efficiently. Govender & Parumasur (2010) indicated that managers have to continuously develop new competencies to manage challenges and for organizational survival. Botha and Camphor (2008) urge that development of managerial skills and competencies is essential for organizations to achieve their strategic objectives and goals. Fard et al., (2010) urge that presently organizations purely understand the importance of employees since competent ones can apply their knowledge and skills, abilities and personal characteristics for the attainment of organizational objectives and goals. Zezlina (2008) stresses that in order to develop corporate and managerial structures, teamwork, efficient communication and continuous professional training are important if organizations are to develop and sustain themselves.

According to Hellriegel et al., (2008), managerial competence is the skills, set of comprehension, behaviors and attitudes necessary for managers to succeed in any business organization. Botha & Camphor (2008) urge that development of managerial skills and competences is essential for organizations to achieve their noble objectives. Coetzee (2010) stated that interpersonal skills are important managerial competences. Zopiatis (2010) indicates that for managers to be competent, they should have conceptual, technical and human skills. Whitehead (2009) asserts that in order to achieve the best results, an organization has to highly develop effective communication, interpersonal and analytical skills within its structures. Epstein and Hundert (2008) emphasize the routine and careful use of technical skills, communication, knowledge, values and systematic daily applications for the benefit of the individuals and the public at large being served. Bitencourt (2009) also qualifies the effective communication and continuous training issues as indicated by Zezlina (2008). Factors to consider while developing managerial competence are inexhaustible, different authors give small components which give a lot of value if put together.

## **Financial performance**

According to Dayananda et al., (2009), financial performance refers to a summation of all activities of an organization that result into wealth maximization. Tommasi (2007) emphasizes a reasonable and affordable budget as a super instrument of efficient financial management and performance. For Poston et al., (2011), financial performance is both a quantitative and subjective measure of how well an organisation can use its assets from its primary mode of business to generate revenue over a given period of time and present the results in such an acceptable format in the financial statements which can be analyzed and reviewed by stakeholders and interested parties. Vraniali (2010) states that in any public spending, controls, proper accountability, and financial reporting are significant factors with much emphasis on financial reporting.

Verschoor (2009) mentions financial performance measures to include the value of long- term investment, financial soundness, and efficient use of corporate assets. Like Verschoor (2009), Hitt and Young (2010) emphasize accounting-based performance using indicators such as return on assets, return on equity and return on sales and each of these indicators is calculated by dividing net income by total assets, total common equity and total net assets respectively. According to Wei and Zhang (2008), financial performance in financial institutions is measured by top line profitability and liquidity in determining the business retention level then followed by determining the financial efficiency. Financial performance is a clear measure of the health and soundness of an organization as reflected in the annual financial statements and published information about each organization. Munene (2013) conducted a study and found out that the challenges experienced regarding to internal controls include; struggles with liquidity problems, financial reports are not made timely, accountability for financial resources is wanting, frauds and misuse of institutional resources have been unearthed and a number of decisions made have not yielded the expected results.

Ondieki (2013) conducted a study and stated that internal controls could have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Internal control audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. The objectives of internal controls audit relate to management's plans, methods, and procedures used to meet the organization's mission, goals, and objectives

## **Internal controls and financial performance**

Musfirah (2010) indicates that gaps in internal controls have been found in several agencies over poor financial performance. Internal control gaps identification are discussed by Musfirah (2010), however, his study is silent on how to close the internal control gaps in light of good financial performance. Nilnison and Chanthinok (2011) emphasize the comprehensiveness of internal controls of corporate objectives in the areas of financial reporting, operations and compliance with pertinent laws and legislative framework. They further note that internal controls also include programs for preparing, verifying and distributing to various levels of stakeholders those current reports and analyses that enable informed opinion and judgment on the financial performance of the organization. Baltaci and Yilmaz (2006) believe that Enterprise Resource Planning Systems provide a mechanism to deliver fast, accurate financial reporting

with in-built controls that are designed to ensure the accuracy and reliability of the financial performance being reported to stakeholders.

### **Managerial competence and financial performance**

According to Hayes and Wright (2008), managers need regular financial performance reports so as to make informed decisions and they viewed financial reporting as one way through which managers make accountability for the resources entrusted to them. Sarbanes-Oxley Act (2002), following the financial failures in United States of America (US) established new and enhanced standards for all US public company Boards, management and public accounting firms to gauge their managerial competence in light of their financial performance. As a result of this Act, companies must have required chapters in their financial statements on managerial competence and company auditors need to express an opinion on the effectiveness of management governing companies as a result of auditing their financial performance as reflected in the financial statements published from time to time.

For Conyon and Peck (2008), they found out that coupling of management remuneration to corporate financial performance in companies with outsider-dominated Boards and the Board nomination and compensation committees will promote a greater alignment of goals between management and shareholders as such committees stand for the overall controlling force within the organization. This is because of the rules and fair policies and standards they presuppose management to attain in order to strengthen financial performance. Pennacchi and Rastad (2011) deepened the study of agency costs by specifying different principal-agent relationships and their required managerial competence in light of the financial performance results they relay to stakeholders. For Beecht et al., (2010), a grant of a large compensation package to those charged with management can be seen as a sign of poor management which may lead managers to window dress financial performance results to look impressive yet their failures in managerial competencies.

Taking all former thoughts together, a good overall rating of managerial competence is a clearly indicates a well performing organization financially and an acceptable corporate culture which can be testable compared and benchmarked with others.

### **Methodology**

#### **Research design**

The study was cross-section in nature. The study was both descriptive and inferential in nature. Descriptive approach focused on the quantitative aspect of the study that involved in obtaining information about the situation that existed, the inferential approach was adopted so as to be able to describe and explain relationships between the study variables (Dawson, 2002; Kumar, 2005). The study also used a case study strategy by focusing on ABU SACCO with her six (6) branches. According to (Arthur, 2012), the advantages of case study research strategy are that: it opens the way for discoveries; they are a step to action; and they generalize either about an instance or from an instance to a class.

### **The Population of the Study**

The study population comprised of ABU SACCO in her coverage of 6 branches of Mbarara, Kashaka, Bwizibwera, Igorora, Kiruhura and Ibanda, which acted as the unit of analysis. All the branches were considered for this study, since the population is equal to the sample. There was no sampling technique used.

The Unit of Inquiry was board members and employees of ABU SACCO. A total population of 35 respondents comprising of board members, supervisory committee members, Managers, banking officers, Assistant managers, marketers, accountants, internal auditors and loans Officers were used for this study. ABU SACCO outsources noncore services for example security and cleaning services (ABU SACCO human resource management annual report, 2017)

### **Sampling Technique**

Both simple random and purposive sampling methods were used for selecting the sample. Random sampling involved picking a sample at random without discrimination and all samples were given equal chances of being selected for the study. (Mugenda, 2003) further explain the goal for simple random sampling is to achieve the desired presentation from the members of accessible population. Stratified simple random sampling was used since the respondents had different characteristics. This was done by grouping the respondents into homogenous subgroups (Banking assistants, marketing officers and Credit officers) and then simple random was used to select the respondents from each stratum. The Rotary method was used to select the respondent per each subgroup.

Respondents were selected using purposive sampling. These are internal auditors, accountants, Board members, Branch managers' business development manager, and assistant branch managers. According to (Sekaran, 2003), purposive sampling involves the choice of objects which are advantageously placed to provide the information required. They were the people with right information about the study by virtue of having gone through experiences and process themselves and might perhaps be able to provide data of information to the researcher.

### **Data collection methods**

Primary data from the respondents was collected through the use of self-administered questionnaires of the delivery and collection type. This allowed respondents the opportunity to answer the questions at their convenience, and no interviewer was present to inject bias in the way questions are asked. Secondary data was collected through documentary review; this aimed at analyzing documents that contain information about the phenomenon being studied (Bailey 1994). The researcher extracted financial data from audited financial statements of ABU SACCO and management reports over the four years 2014-2017

### **Data collection instrument**

The basic technique that was used in collecting primary data was a questionnaire with a checklist of questions which the respondents were required to rate according to the 5 level Likert scale ranging from scale 1 for strongly disagree, 2 for disagree, 3 for undecided, 4 for agree and 5 for strongly agree. A self-administered questionnaire was used for data collection because it is

simple to administer and can easily be filled in at the respondent's convenience. To ensure accuracy of data the researcher personally distributed these data collection instruments

### Measurement of Variables

According to Brewer and List (2003), internal controls were measured using Control Environment, Control activities, Risk Assessment, Information and communication, Monitoring and evaluation, anchored on the 5 level Likert scale. Managerial competence was measured according to Kaiser (2000) using interpersonal skills, training and professional competence, anchored on the 5 level Likert scale. According to Rajesh and Ramana (2011) financial performance was measured using profitability, financial efficiency and liquidity, anchored on the 5 level Likert scale. Similarly, the sub variables on financial performance were coded using a five (5) level Likert scale ranging from strongly agree to strongly disagree whereby strongly agree was scaled 5 and strongly disagree 1.

### Data Management and Analysis

Responses to questions in the questionnaires were first checked for errors and coded. This involved allocating numerical values to the answers given by respondents for the ease of data entry and analysis (Messier, Glover, & Prawitt, 2008). Considering the nature of the research objectives and methodology, parametric tests were used as the main analyses guided by Statistical Package for Social Sciences (SPSS v21). Pearson correlation was conducted to test the associations, while Regression was performed to test the contribution effect of each variable in explaining financial performance.

Whereas a tool for monitoring the performance of SACCOs known as the Performance Monitoring Tool (PMT) was used to analyse secondary data; quantitative data was cleaned and entered in MFI Performance Monitoring Tool (AMFIU, 2009) for calculating ratios on profitability, liquidity, and financial efficiency.

### Results

The gender of the respondents was distributed as shown in table 1

**Table 1: Gender of the respondents**

<i>Items</i>	<i>Frequency</i>	<i>Percent</i>
Male	21	60.0
Female	14	40.0
<b>Total</b>	<b>35</b>	<b>100.0</b>

*Source: Author*

The results in table 2 indicate that (60%) of the respondents were male and the female were 40%. This shows that the study obtained the views of both male and female respondents in the organization and as such, the findings on internal controls, managerial competence and financial performance of ABU SACCO can be generalized to both male and female stakeholders in the organization



### Distribution by Age bracket

The age bracket of the respondents was distributed as indicated in table 2

**Table 2: Age bracket of the respondents**

Item	Frequency	Percent
Less than 30	5	14.3
30-40	18	51.4
41-50years	5	14.3
51-60	4	10.0
61-70	3	8.6
70 and Above	0	1.4
<b>Total</b>	<b>35</b>	<b>100.0</b>

*Source: Author*

The results in table 3 indicate that (51.4%) of the respondents were between 30-40 years these were followed by those between 41-50 years and those less than 30 years (14.3%), that was followed by the bracket of 51-60 at 10.0% and there 1.4% above 70 years (0%). This shows that the study obtained the views of respondents across the different age categories in the organization, implying that the study findings can be generalized to employees and board members in the different age categories at the SACCO

### Distribution by the highest level of Education

The level of education of the respondents was distributed as indicated in table 3.

**Table 3: Highest Level of education of the respondents**

Item	Frequency	Percent
Below Diploma	0	0
Diploma	4	11.4
Degree	30	85.7
Professional qualification	1	2.9
<b>Total</b>	<b>35</b>	<b>100.0</b>

The results in table 4 indicate that (85.7%) of the respondents were degree holders these were followed by diploma holders (11.4%) and the least group were those with professional qualification (2.9%) whereby none was below the Diploma level. This shows that the study collected views of respondents' views from different education levels in the organization

implying that the study findings can be a representative to all members in the different education categories.

### **Distribution by the position held in the SACCO**

The position held by the respondents were distributed as indicated in table 4

**Table 4: Position held by respondents in the SACCO**

<b>Item</b>	<b>Frequency</b>	<b>Percent</b>
Accountant	1	2.9
Assistant Branch Manager	6	17.1
Assistant internal Audit	1	2.9
Banking Assistant	6	17.1
Branch manager	6	17.1
Assistant Accountant	1	2.9
Business Development Manager	1	2.9
Credit officer	5	14.3
Internal Audit	1	2.9
Marketing Officer	4	11.4
Board Member	3	8.6
<b>Total</b>	<b>35</b>	<b>100.0</b>

*Source: Author*

The results in table 5 indicate that (17.1%) of the respondents were Branch Managers, Assistant Branch Managers and banking assistants. These were followed by Credit Officers (14.3%), followed by marketing officers (11.4%), Board members (8.6%) and the least group were Assistant audits, internal audits and accountants (2.9%). This shows that the views of all the employees and Board members from the different departments in the SACCO were represented in the study. Thus, the findings can be generalized to employees and committees from the different departments in the SACCO.

### **Distribution by the years of experience in the SACCO**

The number of years of experience spent by the respondents in the SACCO was distributed as indicated in table 5.

**Table 5: Distribution by the Number of years of experience spent by the respondents in the SACCO**

Item	Frequency	Percent
Less than 5	14	40.0
5-10	15	42.9
Over 10	6	17.1
Total	35	100.0

*Source: Author*

The results in table 6 indicate that (42.9%), of the respondents had spent 5-10 years these were followed by those who had spent less than 5 years (40%) and the least group had spent over 10 years (17.1%). This shows that data was collected from employees and board members with different levels of experience and hence the results can be representative in regarding to experience at ABU SACCO.

#### **The internal control procedures followed by ABU SACCO**

Objective (1) was to establish internal control procedures followed by ABU SACCO. The respondents were requested to evaluate the internal control procedures followed by ABU SACCO in the following aspects on a five- point Likert scale. The range was „strongly agree“ (1), „strongly disagree“ (5). The scores of „strongly disagree“ and „disagree;” were taken to represent a variable which was not in agreement with the established procedures, “undecided” were taken to represent variables that had no position on the established procedures whereas the score of „agree; strongly agree“ were taken to represent a variable which was in agreement with the set procedures at ABU SACCO equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq \text{Agree, Strongly agree} < 5.0$ ). A standard deviation of  $>1.5$  implied a significant difference on the effect of the variable among respondents.

#### **The internal control procedures followed by ABU SACCO**

The internal control procedures followed by ABU SACCO are categorized under Control Activity, Risk Assessment, Control Environment, Information and Communication and Monitoring.

**Table 6: Internal control procedures under Control Environment**

Item	N	Min	Max	Mean	Std Dev
Management decisions are made collectively and not controlled by one dominant individual	35	1.00	5.00	4.2286	.80753
Codes of conduct exist in the organization	35	3.00	5.00	4.4571	.56061
Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff	35	3.00	5.00	4.6857	.52979
Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.	35	1.00	5.00	4.3714	.84316
Management periodically reviews policies and procedures to ensure that proper controls are in place.	35	1.00	5.00	3.8571	1.24009

*Source: Author*

The results in table 6 indicate that the respondents agreed with the following statements.

- i) Management decisions are made collectively and not controlled by one dominant individual (M=4.2286, S.D=.80753)
- ii) Codes of conduct exist in the SACCO (M=4.4571, S.D=.56061)
- iii) Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff (M=4.6857, S.D=.52979)
- iv) Audit or other control systems exist to test for compliance with codes of conduct or policies. (M=4.3714, S.D=.84316)

From the above findings, it is evident that ABU SACCO observes control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the SACCO.

**Table 7: Internal control procedures under Risk Assessment**

Item	N	Min	Max	Mean	Std. Dev
The SACCO has clear objectives and these have been communicated to provide effective direction to employees on risk assessment and control issues	35	1.00	5.00	4.2000	.96406
Management appropriately evaluates risk when planning for new product or activity	35	3.00	5.00	4.2857	.66737
There are sufficient staff members who are competent and knowledgeable to manage	35	1.00	5.00	3.4286	1.26690
Technology issues are considered and appropriately addressed	35	1.00	5.00	3.6286	1.05957
Significant internal and external operational, financial, compliance and other risks are on an assessed ongoing basis.	35	2.00	5.00	4.3714	.77024

*Source: Author*

The results in table 7 indicate that the respondents were in agreement with the following statements

- i) The SACCO has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues (M=4.2000, S.D=.96406)
- ii) Management appropriately evaluates risk when planning for a new product or activity (M=4.2857, S.D=.66737)
- iii) Significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis (M=4.3714, S.D=.77024)

The results established that the management had put in place mechanisms for mitigation of critical risks that may result from fraud. These results are a clear indication that ABU SACCO observed internal control procedures under risk assessment.

**Table 8: Internal control procedures under Control Activity**

Item	N	Min	Max	Mean	Std Dev
There are ongoing processes within the SACCO's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management	35	2.00	5.00	4.2857	.85994
There are processes to monitor the SACCO's ability to re-evaluate risks and adjust controls in response to changes in its objectives business and external environment	35	1.00	5.00	3.8286	1.20014
There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments	35	1.00	5.00	3.3714	1.28534
Reports on significant failings or weaknesses are reported to management on a timely basis	35	2.00	5.00	4.1143	.75815

*Source: Author*

The results in table 8 indicate that the respondents were in agreement with the following statements;

- i) There are ongoing processes within the SACCO's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management (M=4.2857, S.D=.85994)
- ii) Reports on significant failings or weaknesses are reported to management on a timely basis (M=4.1143, SD=.75815)



The results confirm that internal control procedures under control activity include; ongoing processes within the SACCO's overall business operations and these are addressed by senior management to monitor and Reports on significant failings or weaknesses are reported to management on a timely basis. However, some of the respondents did not agree on; there a processes to monitor the SACCO's ability to re-evaluate risks and adjust controls in response to changes in its objectives business and external environment  $M=3.8285$ ,  $S.D= 1.20014$  and there are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments ( $M=3.3714$ ,  $S.D=1.28534$ ). This shows that even though Control Activity is an important functionality activity of the internal control of the SACCO in its operation period, it had not been fully implemented. This therefore, could negatively impact the financial performance of ABU SACCO.

**Table 9: Internal control procedures under Information and Communication**

Item	N	Min	Max	Mean	Std Dev
There are effective reporting procedures in communicating a balanced and understandable	35	3.00	5.00	4.8000	.47279
There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties	35	4.00	5.00	4.7143	.45835
All staff understand their role in the control system	35	1.00	5.00	4.1143	1.07844

*Source: Author*

The results in table 9 indicate that the respondents agreed with the following statements;

- i) There are effective reporting procedures in communicating a balanced and understandable ( $M=4.8000$ ,  $S.D=.47279$ )
- ii) There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties ( $M=4.7143$ ,  $S.D=.45835$ )
- iii) All staff understand their role in the control system ( $M=4.1123$ ,  $SD=1.07844$ )

The results confirm that internal control procedures under Information and Communication Systems include; effective reporting procedures, established channels of communication and all staff understanding their role in the control system and therefore .The study concluded that ABU SACCO implemented information and communication in their activities and functions through established policies and procedures.

**Table 10: internal control procedures under Monitoring**

Item	N	Min	Max	Mean	Std Dev
People in the SACCO have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives.	35	1.00	5.00	4.6857	.79600
Management periodically reviews policies and procedures to ensure that proper controls are in place.	35	3.00	5.00	4.5714	.60807
Processes exist for independent verification of transaction (to ensure integrity)	35	3.00	5.00	4.3143	.63113
The SACCO has employed security guards	35	1.00	5.00	4.2857	1.01667
Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management.	35	2.00	5.00	4.2286	.77024
There is a system in place to ensure that duties are rotated periodically	35	2.00	5.00	4.1714	.92309
Policies and procedures exist to ensure critical decisions are made with appropriate	35	1.00	5.00	4.0857	.98134

*Source: Author*

The results from the table 10 indicate that the respondents were in agreement with the following statements.

- i) People in the SACCO have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives (M=4.6857, S.D=.79600)
- ii) Management periodically reviews policies and procedures to ensure that proper controls are in place. (M=4.5714, S.D=.60807)
- iii) Processes exist for independent verification of transactions to ensure integrity ( M=4.3143, S.D=.63113)
- iv) Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management (M=4.2286, S.D=.77024)
- v) There is a system in place to ensure that duties are rotated periodically (M=4.1714, S.D=.92309)
- vi) Policies and procedures exist to ensure critical decisions are made with appropriate (M=4.0857, S.D=.98134)

The results confirm that the internal control procedures under monitoring employed by ABU SACCO are staff possess knowledge, skill and tools to support them in their duties, the existence of independent verification of transactions, no policy overrides and there is a clear channel of reporting, auditing is clear, internal systems are clear, external operational and internal and finally evaluation of risks.

## Pearson Correlation

Pearson's Correlation analysis use to establish the relationship between the independent variables (managerial competence and internal control procedures) and the dependent variable (Financial performance). The results are presented in table 11

### Correlation results

**Table 11: Correlation results**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Control Environment (1)	1													
Risk Assessment (2)	.559**	1												
Control Activity(3)	.468**	.714**	1											
Information and Communication Systems(4)	.298**	.492**	.426**	1										
Monitoring(5)	.214**	.523**	.671**	.295**	1									
Internal control Procedures(6)	.731**	.785**	.831**	.701**	.545**	1								
Interpersonal Skills(7)	.524**	.232**	.189**	-.131*	-.070	.255**	1							
Training(8)	.250**	.555**	.418**	.013	.142*	.399**	.671**	1						
Professional Competence(9)	.455**	.710**	.684**	.391**	.661**	.410**	.203**	.442**	1					P
Managerial Competence(10)	.504**	.644**	.682**	.123	.321**	<b>.624**</b>	.768**	.699**	.705**	1				
Profitability(11)	.626**	.670**	.662**	.280**	.364**	.712**	.484**	.573**	.667**	.528**	1			
Liquidity(12)	.311**	.458**	.530**	.093	.264**	.445**	.480**	.669**	.548**	.20**	.585**	1		
Financial Efficiency(13)	.187**	.011	.054	.198**	.115	.016	.378**	.333**	.073	.325**	.258**	.332**	1	
Financial Performance(14)	.498**	.498**	.541**	.081	.223**	<b>.515**</b>	.581**	.676**	.558**	<b>.765**</b>	.611**	.810**	.691**	1

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

\*. Correlation is significant at the 0.05 level (2-tailed).

### The relationship between internal controls and financial performance at ABU SACCO

Objective (2) examined the relationship between internal controls and financial performance at ABU SACCO. The results in table 11, show that there is a significant positive relationship between internal controls and financial performance at ABU SACCO ( $r=.515$ ,  $p<.01$ ). This means that any positive change in internal controls is associated with a positive change in financial performance. In addition all the dimensions of internal controls have a positive significant relationship with financial performance apart from risk assessment, information and communication and monitoring.

Hypothesis One:

Null hypothesis:

**H<sub>0</sub>**: Internal controls have no significant relationship with the financial performance of ABU SACCO.

Alternate hypothesis:

**H<sub>1</sub>**: There is a significant positive relationship between internal controls and financial performance of ABU SACCO.

$\alpha$  level:  $\alpha = 0.01$ .

The hypothesis was tested using Pearson's correlation coefficient and the results are shown in table 11. It shows a strong significant positive relationship between internal controls and financial performance of ABU SACCO ( $r=.515$ ,  $p<.01$ ). Since the correlation was found to be significant, the null hypothesis (Saunders, Lewis, & Thornhill) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between internal controls and financial performance of ABU SACCO was accepted as summarized in table 12.

### **The relationship between managerial competence and financial performance at ABU SACCO**

Objective (3) was to examine the relationship between managerial competence and financial performance of ABU SACCO. The results in table 11, shows that there is a significant positive relationship between managerial competence and financial performance at ABU SACCO ( $r=.765$ ,  $p<.01$ ). This means that any positive change in managerial competence is associated with a positive change in financial performance. In addition, all the dimensions of managerial competence have a positive significant relationship with financial performance apart from interpersonal skills.

Hypothesis Two:

Null hypothesis:

**H<sub>0</sub>**: Managerial competence has no significant positive relationship with financial performance of ABU SACCO.

Alternate hypothesis:

**H<sub>1</sub>**: There is a significant positive relationship between Managerial competence and financial performance of ABU SACCO.

$\alpha$  level:  $\alpha = 0.01$ .

The hypothesis was tested using Pearson's correlation coefficient and the results are shown in table 11. It shows a significant positive relationship between managerial competence and financial performance of ABU SACCO ( $r=.765$ ,  $p<.01$ ). Since the correlation was found to be significant, the null hypothesis (Saunders et al.) was rejected and the alternate hypothesis (H1) which recognizes the existence of significant relationship between managerial competence and financial performance of ABU SACCO was accepted as summarized in table 11.

### Regression Analysis

The study was conducted on internal controls, managerial competence and financial performance of ABU SACCO. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements of the multiple regressions for the study. The study evaluated the independent variables and the dependent variable using questionnaires. The findings are provided below

### Model Summary

The model summary shows the summary of the regression analysis as shown in the regression model. The findings are in table 12.

**Table 12: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767 <sup>a</sup>	.588	.584	.41530

#### a. Predictors: (Constant), Managerial Competence, Internal controls Procedures

The results in the model summary table 12 indicate that internal controls and managerial competence explain 58.4% of the variations in the financial performance of ABU SACCO. This implies that 41.6% is explained by variables not considered in this study for example political and inflation factors

### Test for coefficients

This shows the level of significance on variables, it also provides the standardized and unstandardized coefficients as shown in table 13

**Table 13: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	.846	.167		5.050	.000
Internal controls	.264	.257	.263	5.126	.051
Managerial Competence	.721	.053	.727	13.492	.000

*a. Dependent Variable: Financial Performance*



The results in the coefficients table 14 indicate that a unit increase in internal controls will result in to 0.263 units (Beta=.263) increase in financial performance and a unit increase in managerial competence will result into 0.727 (Beta=.727) increase in the financial performance of ABU SACCO. But considering the two independent variables, the results indicated that internal controls contribute much to financial performance compared to managerial competence

## **Conclusion and Recommendations**

### **Conclusions**

From the findings, it can be concluded that the internal control in relation to examining the possible internal control procedures followed by ABU SACCO, and these internal control procedures are grouped under information and communication, control activities, monitoring, risk assessment and control environment. Therefore, these mean that when ABU SACCO put into practice properly all these internal control procedures, it will improve its financial performance.

In addition, it can be concluded that internal controls positively influence financial performance at ABU SACCO. This therefore means that once management follows all the internal controls, which are monitoring, clear communication and information, control activity and environment, this will result in an increase in financial performance

It can also be concluded that management competence positively influences financial performance at ABU SACCO, this means that when managers are professionally trained and do attend seminars that help in improving their competences, it will result into improved financial performance of ABU SACCO.

### **Recommendations**

In relation to the findings, analysis and conclusion, the following recommendations have been suggested;

There is need for continuous improvement on the internal control procedures which are used by ABU SACCO by adopting new systems since they are key in increasing the financial performance.

There is also a need to emphasise on equipping managers with technical and professional skills because it enhances their performance which in turn leads to financial performance of ABU SACCO.

The ABU SACCO and stakeholders should promote internal control procedures and management competences since they are key in achieving financial Performance at ABU SACCO. This can be achieved by increasing on the training and encouraging managers to attend seminars and workshops.

Much analysis of ABU SACCOs performance financially and manage the trends.

### **Limitations of the Study**

The study was focused on ABU SACCO only while we have more than 10,000 SACCOs in Uganda, therefore these findings may not be used for generalizations on all SACCOs in Uganda.

Therefore it is important for a study to be conducted using wider scope and coverage then, the findings can be compared and conclusions drawn.

Secondary data was analyzed using ratios and these are based on historical data. A further study on the financial analysis of ABU SACCO using other measures other than the variables in the study is recommended.

The time scope was cross-section. Further study is recommended with a study period longer than five years to determine the effect of internal controls, managerial competence and financial performance of ABU SACCO. It will be of great need to assess whether the findings of this study will hold for a period of time span or if the findings will vary with the period under study.

It was found out that the study variables contribute only 58.4% variation on financial performance of ABU SACCO, Further research should also be conducted using other measures of financial performance.

### **Areas for further study**

Due to the turbulent nature of the business environment in Uganda, a similar study should be conducted after ten years in order to investigate whether there are any areas of commonalities or unique factors this is because the level of technology and business operations is very dynamic and keep on changing

Further studies on the financial Performance of ABU SACCO by employing more variables that were not included in this study

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