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Effects of internal controls on the performance of employees in banking industry: a case of CRDB bank of Dodoma municipality, Tanzania

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EFFECTS OF INTERNAL CONTROLS ON THE PERFORMANCE OF EMPLOYEES IN BANKING INDUSTRY: A CASE OF CRDB BANK OF DODOMA MUNICIPALITY, TANZANIA

By

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A Dissertation Submitted in Partial Fulfillment of the Requirements for the Award of Master in Business Administration of the University Of Dodoma

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the University of Dodoma, a dissertation entitled **“Effects of Internal Controls on the performance of employees in banking industry: Case of CRDB bank of Dodoma municipality, Tanzania”** in partial fulfillment of the requirements for the degree of Masters of Business Administration of the University Of Dodoma.

………..…………………………

Prof. Ahmed M. Ame

(Supervisor)

Date…………………………

DECLARATION

AND

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I, Namugenyi Milly, declare that, this research dissertation is my original work and that it has not been presented and will not be presented at any other University, for a similar or any other degree award.

Signature……………………………

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DEDICATION

This work is dedicated to Vincent and Joseph Kizza as well as the late Miriam Katana.

ABSTRACT

The study, sought to examine the effects of the internal controls on employees' performance of CRDB bank of Dodoma Municipality Tanzania. The study objectives were; to explore types of the internal controls in place at the case under study, to examine the efficiency and effectiveness of the existing controls, to examine the relationship between internal controls and employee performance at CRDB bank and to explore the challenges, facing CRDB bank in implementing the internal controls for employees.

A cross sectional survey was used in the course of the study. The study further was based on the mixed method approach whereby both qualitative and quantitative approaches were employed. It involved employees and the top management of the Bank. Data were collected by using both primary and secondary sources by using a questionnaire and interviews. Data were presented in tabular form by using frequencies and percentages. In addition to that, Statistical Package for Social Sciences (SPSS) was employed to analyze the relationship between the variables under study.

Findings indicated that, there were different types of internal controls used in CRDB bank, the level of employees' performance was found to be inadequate and there was a significant positive relationship between the internal controls and employees' performance. It was recommended that, the management of CRDB should increase its co-operation and support to the internal audit department and other departments to promote efficiency and effectiveness of internal control.

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LIST OF ABREVIATIONS

CRDB	Cooperative Rural and Development Bank
NBC	The National Bank of Commerce
NMB	National Microfinance Bank
UDOM	The University of Dodoma
SPSS	Statistical Package for Social Sciences
BAFIA	Banking & Financial Institutions Act
PLC	Public Limited Company
PWC	Price Water Coopers
COSO	Committee of sponsoring Organization of the Treadeway Commission
USA	United States of America
SOX	The Sarbanes-Oxley Act
BCP	Business Continuity Planning
ICoFR	Internal Controls over Financial Reporting
CEO	Chief Executive Officer
CFO	Chief Financial Officer
INTOSAI	Internal Control Standards Committee of the International Organization of Supreme Audit Institutions
IT	Information Technology
GAAPs	Generally Accepted Accounting Principles

CHAPTER ONE

OVERVIEW OF THE STUDY

1.0 Introduction

This chapter specifically presents the background to the study, statement of the problem, research objectives, research questions, and the significance of it. The chapter, winds up with the scope of the study and the disposition of this report.

1.1.1 Background of the Study

Tanzania, as a developing nation tries to strengthen the internal control system, through their agencies such as the Central Bank. The Finance Ministry encourages financial institutions to emphasize on implementation of effective internal control system. The board of directors of any financial institutions, is supposed to approve and ensure proper policies and procedures, and adequate overall internal control systems, for monitoring and controlling the risks for each line of business and market served by such bank or financial institution, including credit, financial, market, operations, legal and any other risk affecting or likely to affect such bank or financial institution (BAFIA, 2006). The Bank of Tanzania and other agencies supervise the financial institutions through the following Acts: Public Finance Act (2004), Public Procurement Act (2005), Banking and Financial Institute Act (2006), Bank of Tanzania Act (2006) and their regulations such as money laundering Act (2009).

For banks to be able functionally effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. For these conditions to be obtained, there must be a sound accounting system, which is occasioned by an internal control system. It is worth noting that, internal controls only provide a reasonable but not absolute assurance to an entity's management and board of directors that the organization's objectives will be achieved. The likelihood of achievement is affected by limitations inherent in all systems of internal control. Organizations establish systems of internal control to help them achieve a performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations.

Internal controls are put in place to keep the organization on course towards profitability goals and achievement, of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth (Hayes et al., 2005). The banking sector in any nation is a unique sector in the economy that provides different kind of services to customers and handles a massive volume of funds daily. All activities in the economy depend on the strength and stability of the banking sector. Due to these facts, the necessity of internal control system in the banks cannot be undermined. For the basis of a safe and sound banking system, the effective internal controls are so important. A system of tough internal controls can support to ensure that, goals and objectives of banks will be met, that the bank will help to attain long-term profitability targets, and maintain reliable financial and managerial reporting (Gamage et al, 2014).

Such a system can also help to ensure that, the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures and decrease the risk of unexpected losses or damage the bank's reputation. This would help the bank's board of directors and the management to safeguard the bank's resources, produce reliable financial reports and comply with laws and regulations. Meantime, it supports to reduce possibilities of substantial errors and irregularities and assists in their timely detection when they do occur. Furthermore, this control system may discover errors caused by personal distraction, carelessness, error in judgment or unclear instructions in addition to frauds or deliberate noncompliance with policies (Gamage et al, 2014).

Therefore, the bank personnel must have a proper knowledge on its internal control and be consistently applied too. These controls include the division of work, job rotation, authority levels, separation custody and recording and accounting controls (Tandon et al, 2007). The presence of effective internal control system and their usage is very vital to the banking industry which is engaged in broader financial, economic and social roles.

1.1.2 General over view of CRDB Bank

CRDB stands for Cooperative Rural and Development Bank; however, it is not cooperative. This bank is one of the oldest privately owned banking institutions and the third largest bank in Tanzania (The National Bank of Commerce and the National Microfinance Bank which split from NBC are the two largest banks). CRDB was created under the Companies' Act and is under the authority of the Bank of Tanzania (external regulation and supervision).

According to CRDB Annual Report, (2013); the CRDB Bank PLC is the leading banking institution in Tanzania in terms of assets, customer deposits, loans and advances, with an ambition to expand its footprint in the wider East Africa region. Besides playing an influential role in the socio-economic development of the country, CRDB Bank consistently relies on its sound business model to pursue a sensible diversification strategy, alongside consolidating and improving its banking operations.

According to CRDB Annual Report, (2013); the Board accepts a final responsibility for the risk management and the internal control systems of the company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis, in order to provide a reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability as well as adverse conditions; and;
- Responsible behaviors towards all stakeholders.

The company has a Risk and Compliance department, which is responsible for checking and identifying all the risks and a proper ways to mitigate these risks. Likewise, the board assessed the internal control systems throughout the financial year ended 31 December 2013 and is of the opinion, that they met accepted criteria.

1.2 Statement of the Problem

Poor management and insufficient control of risks have caused financial crises in the world (Hayali et al. 2012). In fact, financial institution's employees are facing a new working environment when it comes to internal controls, whereby in some institutions, internal controls have deprived their full efficiency yet with others, the controls have led to the opposite. Scholars like Mvingira & Rutageruka, (2014), report that, in Tanzania, most financial institutions have a weak internal control in usage considering the high operation cost; yet financial institutions should implement effective internal controls for their employees just like other big companies. Now these entities are faced with a problem of misuse of resources available by the employees as stressed by Sankoloba & Swami, (2014).

Effectiveness of internal control on employee performance should be considered most important in every financial institution or organization because the task of internal controls is to prevent and detect misallocation of resources in these firms. Internal controls are put in place to ensure safe custody of all assets; to avoid misuse or misappropriation of the firm's assets and to detect and safeguard against probable frauds. Every institution whether financial or non-financial, should have management of the highest qualifications, caliber and dedication since its inception. The management should meet regularly to review the affairs of the institution and to direct the strategic path of the firm and also ensure continued goal congruence (Reid & Smith, 2000).

The institution should also employ world class professionals to fill all the key departments and units. This should probably be ensured by having a transparent and open system of selection and recruitment aided by an ably staffed Human Resource Department of the institute. All departments and units should be adequately staffed with qualified and competent staff. The organization's records and accounting systems should be refined overtime and be audited by professionally trained and recognized auditors with a good reputation (Chenhall, 2003).

An organization should always have an internal audit department to help in compliance with the internal policies and procedures. Most financial institutions put the above efforts in order to achieve positive performance. However, despite all these efforts, financial institutions still struggle with liquidity problems, untimely financial reports, inefficient accountability for the firm's financial resources, frauds and misuse of the firm's resources as well as a number of decisions made not yielding the expected results (Hayes et al., 2005).

Furthermore, business transactions are not carried out according to the Generally Accepted Accounting Principles (GAAPs). This leaves the assets of an organization being improperly safeguarded, records being incomplete and information being inaccurate which often results in misleading financial statements that cannot be relied on by the stakeholders of the firm (COSO 2004). PROCASUR Africa Report (2012) states that, poor control systems on the employees have led to huge investments lost through fraud and misuse of assets that are used to generate revenues while members and institutions have suffered big losses.

This study therefore, was put in place in order to investigate on the effectiveness of the existing internal controls on employees' performance. The study considered the banking industry and particularly CRDB bank in Tanzania as the platform. The study was expected to provide knowledge that would help management of Banks and researchers to understand the loopholes within the internal controls systems which have caused persistent poor employee performance.

1.3 Objectives of the Study

The general objective of the study, was to assess the effects of internal controls on employees' performance in the banking industry, specifically, the study intended to meet the following research objectives.

i. To explore types of the internal controls in place at the case under study.
ii. To examine the efficiency and effectiveness of the existing controls at the case under study.

iii. To examine the relationship between the internal controls and employees' performance at CRDB bank.
iv. To explore challenges facing CRDB bank in implementing the internal controls for employees.

1.4 Research Questions

The study sought to find answers to the following research questions:

i. What are the existing types of controls to the employees' performance in CRDB?
ii. Which ways can be used to assess the efficiency and effectiveness of the internal controls at the case under study?
iii. Is there any relationship between the effectiveness of the internal control and employees' performance?
iv. Which challenges are facing CRDB in implementing internal controls for employees?

1.5 Significance of the Study

The study has significance to knowledge, policy contributions and managerial applications. With the respect to the knowledge contributions, other researchers who would be interested on the same idea are likely to be provided with a proper path, of what this research could not cover considering its limitations. The study also might be a valuable reading material for students and researchers.

In the case of policy application, it is expected that recommendations would be provided to complement the policies by the regulatory bodies and the efforts of the banking sector in addressing problems.

The study findings, are hoped to confirm the present perceptions about the effectiveness of the internal control on employee performance. This might help the company, to redefine approaches that would facilitate the success of the banks objectives. So, the findings of the study will support to identify gaps in the systems of the internal controls in the banking industry.

For the case of managerial application, the motivation of the research work is to evaluate the effectiveness of the internal control systems. The outcomes of the study might support the commercial banks to put in place activities for their day to day management of safeguarding assets, prevention and detection of frauds, errors and irregularities. This paper also, will act as a manual to managers of banks as well as other business organizations. In addition to that, the findings of this research work are likely to help financial institutions to sit up in following the control measures in their day to day management.

1.6 Scope of the Study

This study was conducted in Dodoma region of Tanzania, mainly in CRDB branches found in Dodoma Municipality. Dodoma region is centrally positioned in Tanzania; the region was established in 1963 consisting of three rural districts (Dodoma rural, Mpwapwa, and Kondoa). To date, Dodoma region has 6 rural districts and one urban District namely: Chamwino, Kondoa, Mpwapwa, Kongwa, Bahi, Chemba and Dodoma municipal; making a total of 7 districts in the region. The region is the 12th largest in the country and covers an area of 41,310 square kilometers (National Bureau of Statistics, 2013)

Out of the seven districts in the region, the research was based on one district which is Dodoma Municipality. CRDB bank in this district has been chosen because it was easily accessible to the researcher and among one of the banks with many branches, in this region which is convenient for data collection. The study content, based mainly on the independent variables to explain the effectiveness and efficiency of internal controls, on employees' performance, challenges faced in implementation of these controls and the relationship, which exists between internal control and employee performance.

1.7 Research Report Disposition

Chapter one, provides the background information to the problem. It also provides the statement of the research problem, objectives, research questions, significance and scope of the study. Chapter two provides the theoretical framework of the study, definitions of key concepts related to the study, relevant theory on the study and analysis on empirical literature has also been provided. A knowledge gap, which discusses among others on the need for conducting of the study and the conceptual framework, has been portrayed. Three gives a detailed discussion on the methodological issues. It shows the approach adopted, design employed, setting of the study, types of data sources and sampling methods used. The chapter ends with matters pertaining to data collection, analysis techniques and data quality and ethical concerns. Four lays down the findings of the study followed by rich discussions. Finally chapter five summarizes the findings of the study. It points out the contributions of the study to the body of knowledge, managerial and policy implications. This chapter also, provides both conclusions and recommendations and winds up by showing the limitations of the study and finally suggests new areas for a further research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides a conceptualization of key terms of the study, theoretical framework which is followed by an empirical support, relating to the contributions of other researchers and critically identifying the existing research gaps, on the study under investigation; basing on the study variables, guided by the conceptual framework.

2.1 Conceptualization of Key Terms

This section provides the conceptual understanding of the key terms of the study which are internal control, employees' performance and employees. These terms are clearly presented alternatively as shown below.

a) Internal Controls

Internal control is a company's system, defined and implemented under its responsibility which comprises a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company, which contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources that enables it to take into consideration, in an appropriate manner, all major risks, be they operational, financial or compliance (AMF working group, 2007).

According to Salamah (2010), internal control, is defined as the organizational plan, coordination methods, measures and approaches adopted by top management to protect the assets of enterprises, audit and review the accounting data, assure its credibility and accuracy, increase the productivity competency besides encouraging the staff to comply with the administrative set policies. Harrison et al. (2011) also, acknowledges that, internal control is a system of procedures implemented by company management. It is designed to follow objectives as: safeguard assets, encourage employees to follow the company policy, promote operational efficiency, ensure accurate, reliable accounting records and comply with legal requirements.

According to Basu (2006), internal Control system, is the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible, the completeness and accuracy of records.

Price Water Coopers (PWC) (2008), stresses that, an internal control system consists of all the procedures, methods and measures (control measures) instituted by the board of directors and the executive management to ensure that, operational activities progress in a proper fashion. Organizational measures for the internal control are integrated into operations, which means, they are performed simultaneously with the working processes or performed directly before or after the work is carried out.

Internal controls are policies, procedures, practices and organizational structures, implemented to provide a reasonable assurance that, an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005).

It is also defined as the integrations of the activities, plans, attitude, policies and efforts of the people of an organization working together to provide reasonable assurance that, the organization will achieve its objectives and mission (Hevesi, 2005).

Whittington and Pany (2004), emphasize that, internal control is a process and not an end itself. They further note that, internal control provides only reasonable assurance but not absolute assurance about the attainment of an entity's objective. Gupta (2001) also acknowledges that, internal controls can only provide reasonable assurance that management objectives will be achieved.

According to the COSO Enterprise Risk Management framework (COSO 2004), controls are designed to help the organization achieve three objectives. The first objective, relates to the efficient and effective use of the organization's resources for operations. Second objective relates to the preparation of reliable financial statements, while the third relates to the organization's compliance with laws and regulations. As academic research on the effectiveness of controls has developed, two separate and somewhat divergent research streams have emerged, focusing on different aspects of these objectives.

The first stream relates to the management accounting and focuses primarily on the first COSO objective: the ability of controls to ensure the efficient and effective use of the organization's resources for operations. Management control systems, are typically defined as a broad array of processes designed to align employee interests with the objectives of the organization (Zimmerman, 2011), for example, defines a control as a process that helps to ensure the proper behaviors of the people, in the organization and notes that, a proper employee behavior should be consistent with the organization's strategy.

The second stream of controls research relates to auditing and financial reporting and focuses on the second COSO objective: the effectiveness of controls to ensure reliable financial reporting (Doyle et al. 2007; Ashbaugh-Skaife et al. 2008, 2009; Hoitash et al. 2009). This literature has traditionally focused on internal controls, and their role in ensuring the accuracy of financial information. Further, this literature stream often examines the tendency for incentive compensation to incite opportunistic behavior by executives and other employees. Consequently, this stream of literature typically views incentive compensation as a risk factor rather than a control (Gul et al., 2003).

From the above definitions, it can be deduced that, internal control comprises the plan of an organization and all of the coordinated methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Therefore, the organizations should design operations or procedures which help coordinated efforts of the people working together in an organization in which, work done by one employee is routinely checked by another employee during normal course of operations.

b) Employee

An employee is a person who works in the service of another person under an express or implied contract of hire, under which the employer has the right to control the details of work performance (Black's Law Dictionary). According to Investor (2015), an employee is a person who is hired to provide services to a company on a regular basis, in exchange for compensation and who does not provide these services as part of an independent business.

An employee is an individual who works part-time or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties. An employee can also be called worker (Business Dictionary, 2015). An employee is a person who has agreed by contract to perform specified services for another, the employer, in exchange for money (Duhaime's Law Dictionary, 2015).

c) Employee Performance

Goodwin (2003), states that, performance comprises of the actual output or results of an organization as measured against its intended outputs or objectives. Shapiro (2007), states that, performance is the measurement of the results of policies and operations in monetary terms. These results are reflected in the firm’s returns and value added. This is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm’s overall financial health over a given period of time.

Touche (2004), notes that, the traditional role of internal control is to keep the organization focused to the desired goal, bring value, and improve operations. In this current era of the Sarbanes-Oxley Act of 2002 (USA), it has the objective of assurance on financial control and compliance. Some of the peak performance indicators are: reports issued on time, staff training and certifications, internal audit turnover, internal audit transfers, internal audit employees survey measuring professional staff satisfaction, internal audit staff utilization, and hours of training.

They conclude that, adaptability and flexibility will stand out as key characteristics of successful internal control functions. An optimized internal control function will tailor its activities to areas of greatest risk and opportunities for greatest value. Such firms can then attain the benefits of sustainable compliance and enhanced competitiveness.

The business dictionary, defines employees' performance as the job related activities expected of a worker and how well these activities are executed. Many business personnel directors, assess the employees' performance of each staff member on an annual or quarterly basis in order to help them identify suggested areas for improvement. An employee is an individual who works part-time or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties (Business Dictionary, 2012).

Hunt (2015) reveals that, employee's performance is a rating system used in most corporations to determine the abilities and output of an employee. Performance is divided into five components: Planning, monitoring, developing, rating and rewarding. In the planning stage, goals are set to help measure the employee's work time to see if they are able to maintain the goals set or reach new goals.

Monitoring is the phase in which the goals are looked at to see how well one is doing to meet them. This can also be a feedback stage in which employers determine if progress is being seen or not. During the developing stage, an employee is supposed to improve any poor performance that has been seen during the time frame one has been working at the company. Employee's performance ratings generally, are given out each year. The rating is to summarize the performance based on a number system to determine where on the scale, a person is. At the end of the cycle is rewarding stage. This stage is designed to reward and recognize outstanding behavior such as that which is better than expected.

2.2 Theoretical Review

There are various theories that are related to internal controls. However, the agency theory was adopted in this study because it is well connected to the study since internal control is one of many mechanisms used to address the agency problem.

The Agency Theory

The Agent theory emerged in the 1970s, from the combined disciplines of economics and institutional theory. There is some contention as to who originated the theory, with theorists Stephen Ross and Barry Mitnick claiming its authorship. Ross is said to have originally described the dilemma in terms of a person choosing a flavor of ice-cream for someone whose tastes he does not know. The most cited reference to the theory however, comes from Michael Jensen and William Meckling. The theory has come to extend well beyond economics or institutional studies to all contexts of information asymmetry, uncertainty and risk.

This theory posits that, agents have more information than principals; and that this information asymmetry adversely affects the principals' ability to monitor whether or not, their interests are being properly served by agents. Furthermore, the assumption of the Agency theory is that; principals and agents act rationally and use contracting to maximize their wealth. The consequence of this assumption maybe the 'moral hazard' problem, indicating that, in an effort to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals.

According to this theory (Agency theory), a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents), who are charged with using and controlling those resources. Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Jensen & Meckling, 1976).

Barlie & Means (1932) stress that, in order to harmonize the interests of the agents and the principal, a comprehensive contract is written to address the interest of both the agents and the principal. They further explain that, the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Coarse (1937) who emphasizes that, the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work. He however, proposes that, the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard.

Other related reviews include; The Sarbanes-Oxley Act (2002) (SOX), which requires companies to report on the effectiveness of their internal controls, over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process.

Studies have shown that, internal control reduces agency costs, with some even arguing that, firms have an economic incentive to report on internal control, even without the requirements of SOX (Deumes & Knechel, 2008). Their argument assumes that, providing this additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investments or risk and, therefore, the cost of equity capital.

Other research has found out that, weaknesses in internal controls are associated with increased levels of earnings management (Chan, Ashbaugh et al. 2008). Earnings management is the agency problem that motivated SOX legislation in the first place, specifically earnings manipulation by Enron, WorldCom, etc. Internal controls have played a major role in moderating the agency problem in corporations for many years.

This Theory was chosen for this study simply because internal control is one of many mechanisms used in business to address the agency problem (Jensen and Payne, 2003) and again internal control reduces agency costs. Relating the theory to the study, where there is agency relationship, there is moral risk. Moral risk in this context refers to that, instead of behaving for the maximum benefit of the organization, the agent endeavors to maximize his own benefit by means of opportunism and damage the trustee’s interests. Therefore financial institutions should employ effective internal control mechanisms so as to deal with the problems brought about by the agency relationship.

2.3 Empirical Literature Review

This section, presents some empirical review in respect to the study and the issues discussed here are; types of internal controls, efficiency and effectiveness of the types of internal controls, the relationship between internal control and employee performance, and challenges faced during the implementation of the internal controls.

2.3.1 Internal Controls in Place

A system of internal control consists of policies and procedures designed to provide the management with a reasonable assurance that the organization achieves its objectives and goals. These policies and procedures are often called controls, and collectively they comprise an organization's internal control (Awe, 2005). Traditionally, referred to as "hard controls," these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls include "soft" controls such as management "tone at the top," performance evaluations, training, and maintaining established policies, procedures, and standards of conduct.

Using the analytical approach and focusing on control activities and monitoring, Barra (2010) investigated the effect of penalties and other internal controls on employees' 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 that, the effectiveness of preventive control activities such as segregation of duties is dependent on detective controls.

Amudo and Inanga (2009) also carried out a study in Uganda to evaluate the internal control systems that the regional member countries of the African Development

Bank Group institute for the management of the Public Sector Projects that the Bank finances. There are 14 projects of the bank's public sector portfolio in Uganda. The data received and analyzed was for eleven projects. Three projects were omitted because they were not fully operational to install effective internal control systems. The study identified the following six essential components of an effective internal control system: control environment, risk assessment, control activities, information and communications, monitoring and information technology. The outcome of the evaluation process was that, some control components of effective internal control systems were lacking in those projects. These rendered the control structures ineffective.

According to the Basics of Internal Controls (2009), there are two types of internal controls: preventive and detective controls. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize on quality. However, detective controls play a critical role by providing evidence that; the preventive controls are functioning as intended.

Preventive Controls are designed to discourage errors or irregularities from occurring. They are proactive controls that help to ensure departmental objectives are being met. Examples of preventive controls are:

a) Segregation of Duties: Duties are segregated among different people to reduce the risk of error or inappropriate actions. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided. Segregation of duties refers to separating out operational or administrative functions that, if combined, could be used to steal from the company. The most important segregation of duties is having different employees responsible for the recording and the custody of assets. For example, if one employee had full access to inventory in the warehouse and was also responsible for recording the accounting transactions related to that inventory, the employee would have the opportunity to steal goods and to cover up the theft with fake transactions. Separating those functions removes the ability to easily appropriate company assets (Angie & Mohr, 2015).

b) Approvals, Authorizations, and Verifications: Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that, s/he has verified and validated that, the activity or transaction conforms to established policies and procedures. Angie & Mohr, (2015) add that, another important control that protects company assets is to require two authorized signatures on all company checks. This ensures that, two people must agree that the check is legitimate and that, the payment is appropriate. This curbs direct theft (where an employee with signing authority simply writes checks to himself) and indirect theft (where one employee creates a fake supplier that bills the corporation). Two sets of eyes are more likely to discover such fraud.

c) Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

Detective Controls are designed to find errors or irregularities after they have occurred. Examples of detective controls are:

Reviews of Performance: Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

Reconciliations: An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary. Bank reconciliation is a control that ensures that, all physical cash transactions have been correctly recorded during a specified period.

The reconciliation is performed by someone other than the transaction clerks who are in charge of billing, accounts payable and receipts. The reconciliation clerk reviews cancelled checks that are returned with the statements of the examined time period to ensure that, they are made out to the same names as those in the accounting system. This procedure not only catches many inadvertent transactional errors, but also theft and fraud (Angie & Mohr, 2015).

Bazzoli (2000), stresses that, detective controls provide evidence that, a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are; reviews, analyses, reconciliations, physical inventories and audits. On the other hand, Chen, (2004) says that, both types of controls are essential for an effective internal control system and from a quality stand point, preventive controls are essential because they are proactive and emphasize quality. However, Wales, (2005) emphasizes that, detective controls play a critical role providing evidence that, preventive controls are functioning and preventing losses.

2.3.2 Efficiency and Effectiveness of the Controls

Ewa & 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. Data were collected from 13 Nigerian banks using a four point Likert Scale questionnaire and analyzed using percentages and ratios. The study found out that, internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud.

Kakucha (2009) evaluated the level of effectiveness of internal controls of enterprises operating in Nairobi. The study was quantitative and was conducted using a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. Primary data was collected from the managers of the small businesses using interviews and examination of documents pertaining to internal controls. The study established that, there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another.

The components of internal control that were missing in most businesses surveyed were: firstly, risk analysis, and secondly lack of proper flow of information. In addition, the study established that, the sample had limited awareness of what constituted an effective system of internal control. The study also found out that, there is a negative relationship between the age of an enterprise and the effectiveness of its system of internal control while a negative correlation between the resources held by an enterprise and its internal control system weaknesses exists. The recommendation was that, there was need to enlighten the operators of small businesses of what constitutes an efficient and effective system of internal control through forums and seminars.

A study conducted by Wainaina (2011), examined the internal control function. The author 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.

Case studies on internal controls in Belgium illustrate the importance of the control environment when studying internal auditing practices. Sarens and De Beelde (2006) found that, certain control environment characteristics like tone-at-the-top, level of risk and control awareness, extent to which responsibilities are related to risk management and internal controls are clearly defined and communicated are significantly related to the role of the internal audit function and fraud detection within an organization.

Jones (2008) compared internal control, accountability and corporate governance in Medieval and modern Britain. The author used a modern referential framework (control 28 environment, risk assessment, information and communication, monitoring and control activities) as a lens to investigate Medieval internal controls used in the twelfth century royal exchequer and other Medieval institutions. Further, the author demonstrated that, most of the internal controls found today were present in Medieval England. Stewardship and personal accountability were found to be the core elements of Medieval internal control. The recent recognition of the need for the enhanced personal accountability of individuals is reminiscent of medieval thinking.

COSO (2011) suggests that, there is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise.

2.3.3 Relationship between the Internal Controls and Employees' Performance

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number of staff would be required to do this job. The study further, acknowledged the role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

On the same line, Olumbe (2012) conducted a study to establish the relationship between internal controls and corporate governance in commercial banks in Kenya. The researcher conducted a survey of all the 45 commercial banks in Kenya. It was concluded that, most of the banks had incorporated the various parameters which are used for gauging internal controls and corporate governance. This was indicated by the means which were obtained enquiring on the same and this showed that, the respondents agreed that, their banks had instituted good corporate governance with a strong system of internal controls and that, there is a relationship between internal control and corporate governance.

There is a general perception that, institution and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that, properly instituted systems of internal control improve the reporting process and also gives rise to reliable reports which enhances the accountability function of management of an entity. Nevertheless, available literature still eludes that, instead of elaborate system of controls in organizations, financial performance has been elusive in most of these organizations (OAG, 2010).

Stevenson (2004), highlights that, performance is the outcome of an individual or group contribution of development in any activity leading to results (positive / negative).The financial statements users, regulators, directors and managers view internal control function as a key component of an organization's corporate governance. Krishnan (2005) emphasizes that, proper application of internal control procedures and policies improves on the performance of an organization.

To align employees' interests with those of the organization, firms implement management control systems, which can consist of various control mechanisms, including incentive compensation, monitoring systems, and internal controls (Zimmerman, 2011). Importantly, firms frequently implement multiple control mechanisms simultaneously, such as incentive compensation and internal controls.

However, there is limited research investigating how various types of controls interact to affect employee performance.

Most research works try to express the problem of internal control system at different angles. This is evidenced by researchers like, Ochoge, (2011) who emphasizes on the internal control and organizational performance, but fails to show the direct contribution of internal control to the financial performance. In addition to that, Noorve, (2006) and Inanga, (2009), try to express the problem of internal control system. Nonetheless, researchers do not bring up the positive correlation between the internal control and employee performance of the banking industry.

2.3.4 Challenges Facing Implementation of Internal Controls for Employees

Wee Goh (2009), studied 208 firms on audit committees, boards of directors, and remediation of material weaknesses in internal control. The author measured the effectiveness of the audit committee by its independence, financial expertise, size, and meeting frequency, and the effectiveness of the board by its independence, size, and meeting frequency, and by the duality of the chief executive officer (CEO) and chair positions (CEO duality). The researcher further examined other factors that can affect firms' timeliness in the remediation of material weaknesses, such as the severity of material weaknesses, firms' profitability, the complexity of firms' operations, and so on. The study found out that, the proportion of audit committee members with financial expertise is positively associated with firms' timeliness in the remediation of material weaknesses.

Second, firms with larger audit committees are more likely to remediate material weaknesses in a timely manner. Third, that a more independent board is less susceptible to the undue influence of management and more likely to exert pressure on management to remediate material weaknesses.

Romar and Moberg (2003), conducted a case study that showed the following 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.

According to Thomas (2010), internal controls provide reasonable but not absolute assurance that the entity's goals and objectives will be achieved. Any system of internal controls has challenges. Some of the most common challenges are:

a) Cost-benefit relationships: When designing the internal control framework and in particular, specific control procedures, it is important to compare the potential benefits to be achieved (in terms of lowering risk and achieving objectives) with the cost of implementing such controls. Some control procedures that provide the most assurance may be too costly to implement and other, less costly, compensating controls may have to be substituted. For example, in a small village or fire district where the treasurer is responsible for all financial operations, it may not be cost-effective to hire another employee for the sole purpose of segregating the treasurer's duties. Instead, a more cost-effective control is to have board member, for example, periodically review the work of the treasurer, especially monthly bank reconciliations, to compensate for the lack of segregation of duties. Small and medium-sized financial institutions may need to utilize this type of approach to ensure proper controls are in place and to avoid incurring additional costs (Thomas, 2010).

b) Collusion: The governing board and the CEO should also be aware that collusion between two or more employees can defeat a system of controls. Simply put, collusion is a secret agreement or cooperation between two or more employees for an illegal or dishonest purpose. Often, internal controls are designed so that, one employee functions as a check on another employee's work. In such situations, there is always the risk that, employees who are supposed to perform independent control procedures may instead choose to work together to circumvent management's controls. It is difficult to set up a system of internal controls to protect against collusion. Management needs to be alert to close personal and family relationships that might present opportunities to circumvent in place controls. This is especially true when a supervisor or manager is responsible for monitoring control procedures performed by a family member or close personal friend (Williams, 2009).

c) Management override: Finally, even though internal controls are well-designed and effective, the same controls may be overridden by management itself. Management's position in the organizational hierarchy creates an opportunity to manipulate or override otherwise effective and properly designed controls. Management generally has the authority to direct that, controls be bypassed or ignored at any time. Internal auditors or confidential fraud/abuse hotlines can help to mitigate the possibility of management override for personal gain or other fraudulent purposes. The bottom line, however, is that, hiring and promoting managers with good character and high ethical values can go a long way in building a positive control environment and diminishing the risk of management override of controls.

Thomas (2010) also argues that, the CEO and other managers need to be cognizant of the impact of information technology (IT) on the integrated internal control framework. Gone are the days when government and district financial management systems were based on manual processes. Even in the smallest of local governments, it is rare to find an accounting system (including general ledger and other systems) that is not fully or at least partially computerized. Manual financial systems are virtually non-existent in the district community.

What all of this means is that, the governing board, CEO and other managers need to be aware that, there are formidable risks connected with digital environments. What makes these environments so challenging is that, the processing of financial transactions and the storage of sensitive information is virtually unseen and unheard, and modifications and intrusions into these systems are equally silent.

2.4 Summary of Literature Review

From the literature review done it has been found out that, realization of positive financial performance and employees' performance in particular depends on whether firms have Internal Controls. Non-compliance to the internal controls is one of the major hindrances to the attainment of positive financial and employee performance in the financial institutions. Weak, non-compliance, non-existent or absence of public financial management functions (Internal Control Systems) are likely to negate any advantages that might be inherent in achieving positive employee Performance towards the goals and objectives of the firm. Therefore, this study was carried out to establish the relationship between the internal control systems and employees’ performance by considering CRDB bank in Tanzania as a platform.

2.5 Knowledge Gap

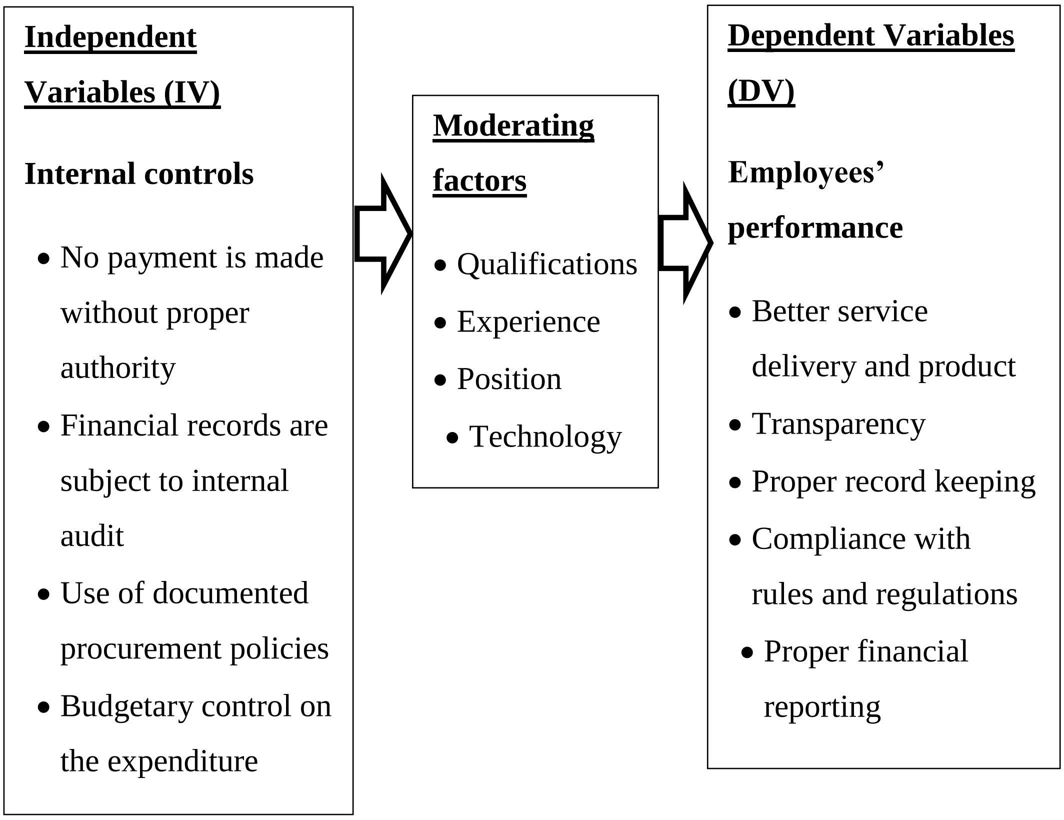
In any financial institution such as banks, internal controls systems are very vital in the day to-day operation of the institution. Previous studies have showed how internal control systems affected employees performance. The situation seems to be completely different in this new era of technological advancement that involves rampant online banking, new system access controls, and increased internet cybercrimes (Douglas, 2011).

Such technological challenges need effective and efficient internal control systems. However, in Dodoma Municipality banks have not been functioning well therefore, internal control systems should be designed in such a way that, they provide assurance to the shareholders for the effectiveness and efficiency of operations, reliability of financial information and compliance with the laws and regulations. From the Literature review, several researchers seem not to have delved their research into the relationship between internal controls and employees’ performance. However, this research will bring clearly the correlation effects of the internal controls and employees’ performance and the conclusions be confirmed or dispelled, after the empirical evidence has been obtained from the research.

2.6 Conceptual Framework

This study was guided by the conceptual framework indicated in Figure 2.1 below. The framework has been formulated by the reviewed theories and existing empirical work to address the study variables.

Figure 2.1: Conceptual Framework



Source: Adopted from Ekpo's 1998

Figure: 2.1: Conceptual framework indicating the relationship among the key variables of the study

The conceptual framework above was adopted from Ekpo's 1998. It describes a relationship between the two variables; the independent in this case being internal controls and the dependent that is the employees' performance in the banking industry. The independent variable comprised of the objectives of internal controls such as proper payment procedures, no payment without authority, financial records are subjected to internal auditor, usage of effective procurement policies and budgetary control on the expenditures, which when well-done can lead to a better performance measure. These include; better services and product, transparency, proper record keeping, compliance with rules and regulations and proper financial reporting. Nevertheless, moderating factors such as qualification, experience, position and technology may affect employee performance of the organization.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents a detailed description of the research methods that were used to collect relevant data for the study. It begins by presenting the research approach and research design for this study, followed by the research sample and the sampling criteria that were used to identify the participants of the study. Thereafter, the chapter presents the data collection methods, procedures, data processing and; validity and reliability. The chapter, winds up with a section on data analysis followed by ethical concerns for the study.

3.1 Research Approach

This study was based on the mixed method approach. With the mixed methods approach, the study makes use of the quantitative and qualitative techniques in data collection and analysis (Madey, 1982). This was to make use of the compatibility of the quantitative and qualitative methods, rather than polarizing them, for complementary and triangulation purposes (Bamberger, 2000). Thus, the science-based "objectivity" of quantitative methods (Chung, 2000) was complemented with the science-based quality of things for the main aim of improving validity and reliability of the research findings.

3.2 Research Design

Research design, is a framework that specifies how each activity should be conducted to accomplish the research objectives, which include specifications of information required and designing the instruments. It is the action plan for how the research will be conducted (Lufumbi, 2009). This study, adopted a descriptive cross-sectional survey research design. The research design was used because it gathered data from a relatively large number of different categories of respondents at a particular time. Mugenda (1999) explains that, cross-sectional survey research design, is used when the study is aimed at collecting data from respondents without the need to make a follow up of the same respondents, thus, saves time to collect the necessary information when the design is used; data are mainly collected by using interviews and questionnaires and is often analyzed using descriptive analysis in survey research.

A survey is a means of questioning a respondent via a collection of questions and instructions for both the respondent and the interviewers (Cooper and Schindler, 2001). Closed and open form questionnaires were used to generate responses and data for analysis. According to Gill and Johnson (1992), this research design falls somewhere in between the research approach continuum and therefore, augers well with mixed methods approach. Through this design, it is possible to triangulate methods and hence improve both validity and reliability research findings.

3.3 Study Location

The study was conducted in Dodoma region specifically at CRDB bank found in Dodoma Municipality. Amin, (2004) as well as Kothari, (2004) argue that, convenience is a concrete justification to select location for the study. Basing on that argument, Dodoma Municipality was selected due to the fact that, the place was convenient to the researcher. Furthermore, CRDB was selected because the researcher was promised access of data and information to answer the research objectives. According to Stake, (1998), someone who gives you access to data and information to actualize your research has done an immense favour and in fact, has given you an opportunity to learn. According to the author, balance and variety in making selection are important but opportunity to learn is of primary importance. It is therefore due to this justification the study was conducted at CRDB in Dodoma Municipality.

3.4 Study Population and Sample Size

The target population of the study was the financial institutions in Dodoma Municipality such as Post Bank, NMB (National Microfinance Bank), CRDB, NBC, and Diamond Trust bank among others. However, the study used CRDB bank as the case study because of the reason provided above. Thus, the study involved three (3) CRDB bank branches in the Municipality, which were UDOM (University of Dodoma) branch, Dodoma branch and Chamwino branch. In its actualization, the study involved two categories of sampling units, namely; CRDB administrators on one side and other employees drawn from departments of the accounting, finance and the internal auditors on the other side. The rational was that, all the above respondents were relevant respondents for study at hand.

3.5 Sample Size

The study, involved forty three (43) respondents from the two categories explained above. They were interviewed at their respective areas. They were also selected according to their willingness to provide information and fill in the questionnaire. According to Aczel (2000), a sample size of 30 and above is appropriate for estimation of population parameter values from sample statistics. For that reason, 43 respondents were considered as an adequate for the study.

3.6 Sampling Methods

This study employed two techniques in selecting the respondents. These were; opportunity to learn sampling and a purposive sampling as presented hereunder.

3.6.1 Opportunity to Learn Sampling technique

Opportunity to learn sampling uses people from a target population available at the time and willing to take part. It is based on acceptance and willingness of the respondents to participate in the study. An opportunity sample is obtained by asking members of the population of interest if they would take part in your research (Amin, 2005). This is a fast, inexpensive and easy way of choosing participants.

Subjects are selected because of their convenient accessibility and proximity to the researcher. For this case, the opportunity to learn sampling technique was used to select employees in the cadre of accountants and auditors. It was in fact prudent, for this cadre to be asked about their readiness to participate in the study.

3.6.2 Purposive Sampling

Amin (2005), defines a purposive sampling as the selection of people holding positions that allow them, to be more knowledgeable with issues going in their area. Purposive sampling is where the researcher consciously decides who to include in the sample. According to Kothari (2004), key informants who are information rich are not selected through randomization but are in fact targeted.

Thus, the study used a purposive sampling for selecting informants who were able to provide data and information that was comprehensive enough to gain a better insight into the problem. It was used simply because the study was targeting custodians of the internal control systems. It also ensured that, only people with the relevant information were sampled. These were mainly the CRDB branch managers (administrators) and heads of Departments.

3.7 Types of Data Collected

Both primary and secondary data collection methods were used to collect the relevant data to the study. Data collection methods were considered in such a way that, the relevant information was collected as much as possible with a little inconvenience to the respondents. Primary data means first hand data. It was collected from the employees, and key informants of CRDB bank. Primary data was important in answering questions about the internal controls, and their effects on employees' performance in the banking industry. Secondary data means second-hand data. These were obtained from recorded documents, earlier studies and some publications on internal controls. These included journals, textbooks, particularly in Auditing and Assurance services. Other information was obtained from the internet.

3.8 Data Collection Methods and Instruments

As mentioned above, this study triangulated methods in all aspects. For the case of data collection, three methods were employed in gathering data and information. The methods were; questionnaires, direct interviews and documentary reviews. The methods are further elaborated below as follows.

3.8.1 Questionnaire

A questionnaire is designed to capture both quantitative and qualitative data. A questionnaire was used because in survey research, the basic instrument used is normally a questionnaire (Saunders et al., 2000). This type of techniques was preferred because it was easy to get attitudes and opinions of the respondents in this case the employees and it was easier for the researcher to collect data using a questionnaire within a given short period of time. According to Best and Kahn (1993), it is easier to tabulate and analyze the information given when a questionnaire is used.

The researcher employed a self-administered questionnaire which was distributed to the staff members, involved in accounting and auditing functions. Closed and open ended questions, were used in the instrument basing on the theme of the study and administered to selected number of respondents (employees), see appendix 1 for a sample. This method was found appropriate because the questionnaire was moderately long and involved modest number of respondents to fill.

3.8.2 Interviews

An interview means face to face interaction between the interviewee and the interviewer. Mainly the interview guides, were used whereby the interviews were held with those respondents identified purposively crucial, to the provision of explanations to the topic under study. These were the managers. The questions for the interview were mainly open-ended, see appendix 2. The open-ended questions, gave a chance to more discussions.

The interview method, helped to collect additional views from key informants on the theme of the study. Questions were answered on spot and the respondents were interviewed from their offices to save time and provide convenience to them. This method, allowed further probing and clarification of questions that tended to be difficult and not clear to the respondents. It also enhanced responses for questions which were regarded as sensitive. The method was also found to be appropriate because it involved a few people who were in fact pressed with time constraint.

3.8.3 Documentary Reviews

This method, involved surveying various documents from various sources like the internet, journal articles, books, brochures and the like. Information from these secondary data are important in supplementing and supporting data from primary sources.

3.9 Data Collection Procedure

Before data collection, instruments were first developed. Thereafter, the researcher requested for permission and an access to collect data from the Bank. Afterwards, pilot testing of the instruments was conducted where a few number of people were purposively selected. According to Janesick (1998), pilot testing the instruments is important because it improves validity and reality as well as developing an effective communication. The test involved 10 people as suggested by Fink (1995). After the pilot testing, the instruments were amended ready for data collection.

The researcher was solely involved in data collection work. This was done purposely in order to avoid observer bias. After data collection, cross-checking for errors was done after which data, were entered into a computer for analysis by using SPSS data editor as recommended by Zikmund (2003) who contends that, important part of data analysis include editing, coding and processing.

3.10 Data Processing

Data that were obtained from the questionnaire were double checked to make sure that the information provided was complete, consistent, reliable, and accurate. Data processing involved scrutiny of the responses given on the questionnaires by different respondents. Data was sorted, edited, and interpreted. The coding and tabulation of the data obtained from the study then followed. To achieve data quality management, questionnaires were tested on 5 respondents and not 10 respondents as it was proposed. This was done to test consistency and to ensure that instruments remained consistent over time.

3.11 Data Analysis

The researcher used both quantitative and qualitative approaches in analyzing data as presented below.

3.11.1 Qualitative Analysis

This method was used to analyze data collected by using an interview guide and some obtained by the usage of the questionnaire. In this study particularly, qualitative techniques employed were data and information matching as well as an explanation building as recommended by Yin (2000). The results from this analysis were presented in a narrative form.

3.11.2 Quantitative Analysis

Quantitative method was used to present statistical data collected from the respondents through a questionnaire. The information was presented in Tables and Figures, mainly in the form of frequencies and percentages. Quantitative data analyzed by the help of a descriptive option of statistical package of Social scientist (SPSS) computer program. This package was preferred because it is faster and simplifies data analysis. It involved transforming the options to each item in the administered instruments into codes.

3.12 Validity and Reliability

Data are of high quality if they are fit for their intended uses in operations, decision making and planning. The quality of data is checked via reliability and validity. In fact, validity is the extent to which a test measures what it claims to measure. It is vital for a test to be valid in order for the results to be accurately applied and interpreted (Oso & Onen, 2005).

Reliability on the other side is the extent to which results are consistent over time. According to (Amin, 2005), reliability of a measuring instrument is the degree of consistency with which it measures whatever it is measuring. Results are referred to as reliable if the same results can be reproduced under a similar methodology then the research instruments are considered to be reliable. To achieve reliability and validity in this study, the following were done.

1. The selection of the respondents was based on the established sampling procedures.
2. Pilot test on the questionnaire, was done after which some revision was made to eliminate ambiguities in the questionnaire.
3. The research involved multiple sources of data (employees, administrators and documentations) and also triangulated methods of data collection (questionnaire, interviews and documentary review).
4. The study, adopted definitions from past studies and operationalized variables by adopting instruments already applied in other studies.

3.13 Research Ethical Considerations

The researcher was open and honest to the respondents. The study was carried out to check the instruments so that questions designed in the questionnaire did not cause harm to respondents. Respondents were informed about the study so that they were able to answer the questionnaire in line with the objectives of the study. Respondents were not obliged to write their names on the research tools. In addition to that, data collection took place after getting permission from the University authority as well as an acceptance from the Bank management.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.0 Introduction

This chapter presents the results obtained from the questionnaires and explains the findings obtained from the field work. It begins with a description of the study demographic characteristics, followed by the main findings as guided by the research objectives. Each research objective is followed by enriching discussions in order to provide an analysis of data and information established.

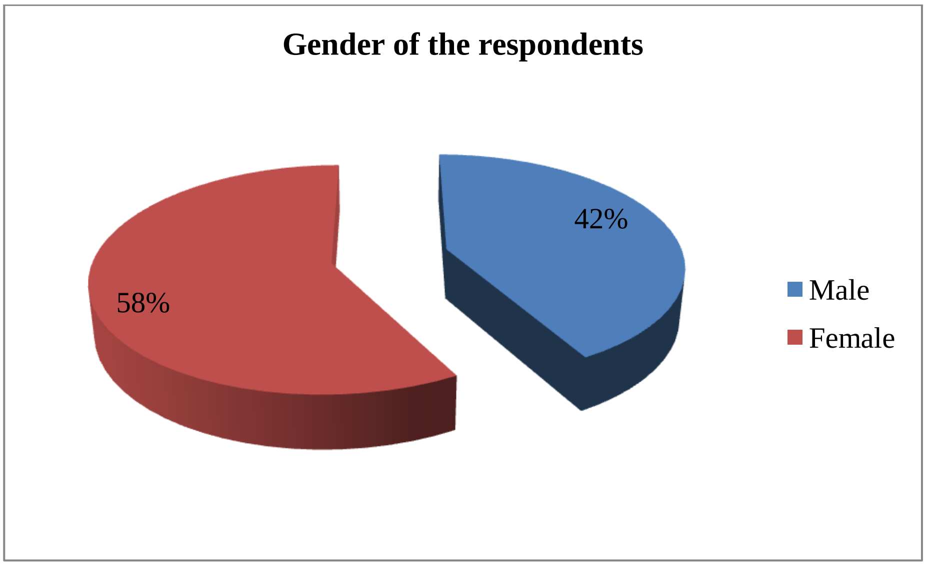
4.1 Description of the Respondents' Demographic Characteristics

This study has involved forty three (43) respondents from CRDB Bank employees. This section provides their profiles that cover their gender, age, education and experience as presented in the following subsections.

4.1.1 Gender Distribution of the Respondents

Figure 4.1 below suggests that, Female respondents were 58% in the sample as compared to their male counterparts who were 42% of the entire sample.

Figure 4.1: Gender of the Respondents



Source: Field Data, 2016

Figure 4.1 above, indicates that, majority of the respondents who took part in this study were females. This implies that, CRDB incorporates both males and females in the management whom help in making decisions due to gender balance.

4.1.2 Age of the Respondents

In terms of age, the respondents were grouped in four age groups, namely; 21-30, 31-40, 41-50 years of age and over 50 years. Table 4.1 below presents the distribution of the main respondents with respect to their age groups.

Table 4.1: Distribution of Respondents by Age

Age	Frequency	Percent
21-30 years	24	55.8
31-40 years	15	34.9
41-50 years	4	9.3
Total	**43**	**100.0**

Source: Field Data, 2016

Table 4.1 above reveals that, the age of the respondents is ranged from 21 to 50 years. The grouping of them was based on their ages at an interval of 21 years and from that, three categories were found from the research findings. The larger number of them lied into the first category of the age group of 21 to 30 years; and under this category, were 55.8%, 31 to 40 years 34.9% and 41 to 50 years were 9.3%. In fact, there was no employee who was above 50 years of age. The majority of respondents were young (55.8%) who were aged between 21 to 30 years. This implied that, most of the workers at CRDB where this study was conducted were young and energetic.

4.1.3 Education level of respondent

Education, is the most important input for planning purposes normally, the education facility influences a proper performance of an individual and any other occupation. It has a more prone effect on the entity of operations and controls. Table 4.2 below depicts the education level of the respondents.

Table 4.2: Educational level of the Respondents

Education level	Frequency	Percent
Certificate holder	3	7.0
Diploma holder	4	9.3
Bachelor holder	30	69.8
Masters' Degree holders	6	14.0
Total	**43**	**100.0**

Source: Field Data, 2016

Findings from Table 4.2 above have depicted that, 69.8% of the respondents were undergraduates (bachelor's degree holders), 14% master's degree, 9.3% diploma and only 7% attained certificates as their highest level of education. This level of education also enabled the researcher to achieve a reliable data concerning the possibility of internal control effects, placed by the entity because a person with this level of education, has a good understanding and reasoning so that s/he would provide more reliable information concerning the effects of the internal controls and how it contributed to the organization success, hence, these employees therefore were knowledgeable and well positioned to implement various internal control systems in the company.

4.1.4 Working Experience of the Respondents

The study has investigated the length of period in years served by the respondents in the institution and the results are presented in Table 4.3 below.

Table 4.3: Working Experience of the Respondents

Working experience	Frequency	Percent
Less than two years	8	18.6
2-4 years	16	37.2
5-6 years	6	14.0
More than six years	13	30.2
Total	**43**	**100.0**

Source: Field Data, 2016

In Table 4.3 above, it has been discovered that, majority of respondents had worked in the institution for a period of 2 – 4 years (16), more than 6 years (13), then less than 2 years (8) and 5-6 years (6). These represented 37.2%, 30.2%, 18.6% and 14.0% respectively. This has shown that, majority had worked in the institution for less than 6 years, as per the illustrations.

4.1.5 Summary of the Demographic Characteristics of the Respondents

From the foregoing presentations on the demographic characteristics of the respondents, it was observed that, majority of them were females (58%) as opposed to males who were 42%. The age group of 21-30 years mostly accounted for 55.8% and a large proportion of them had attained a bachelor's degree (69.8%). It was further observed that, majority of the respondents at CRDB bank had a working experience of less than six years. This was seen by only 30.2% of the total population having an experience of more than six years.

4.2 Findings and Discussions

This section provides the results and discussions of the study as per information gathered from the field. In so doing, the guiding principle was the analytical strategy, which was the chronology of the research questions and objectives. The objectives were as follows: To explore types of internal controls in place at the case under study, to examine the efficiency and effectiveness of the existing controls, to examine the relationship between the internal controls and employees' performance at CRDB bank and to explore the challenges facing CRDB bank in implementing the internal control for employees. Findings are then followed by the discussions below.

4.2.1 Exploring Types of the Internal Controls in Place at the Case under Study

In explaining this objective, the study divided this objective into three categories which were directive controls, preventive and detective controls. Issues were intended to test the respondent's knowledge of the existence of the control systems and types of the control systems available at CRDB bank.

4.2.1.1 Directive Controls

With regards to the types of directive controls at CRDB bank, respondents were requested to choose multiple directive controls that existed in their institution. The outcomes of this investigation are shown in Table 4.4 below.

Table 4.4: Types of Directive Controls at CRDB Bank

Detective controls	**Frequency**	**Percentage**
Organization structure	36	24.48
Policies	31	21.08
Procedures	28	19.04
Guidance statements	21	14.28
Job description	31	21.08
Total		**100**

Source: Field data, 2016

Table 4.4 above shows that, 24.48% of the respondents agreed that, the institution had an organization structure, 31% existence of policies and job descriptions, 19.04% pointed out that the organization's procedures and 14.08% agreed that the institution had guidance statements. This means that, majority were aware about the existence of directive internal controls in their financial institution. Further, results indicated that, CRDB used various techniques in exercising directive controls at the firm.

4.2.1.2 Preventive Controls

As far as the types of preventive controls in CRDB bank were concerned, respondents were requested to choose multiple controls that existed in their institution. The outcomes of this investigation are shown in Table 4.5 below.

Table 4.5: Types of Preventive controls at CRDB bank

Preventive controls	Frequency	Percentage
Separation of duties	29	18.35
Adequate documentation of transactions	22	13.92
Physical control over assets	21	13.29
Management approvals, authorizations and verifications	17	10.75
Timely reconciliation of accounts	25	15.82
Access restriction to records	33	20.88
Money safes	11	6.96
Total		**100**

Source: Field Data, 2016

Results in Table 4.5 above indicate that, as far as the preventive controls were concerned, 20.88% pointed out the existence of access restriction to records, 18.35% agreed with separation of duties, 15.82% timely reconciliation of accounts, 13.92% adequate documentation of transactions, 13.29% physical control over assets, 10.75% management approvals, authorizations and verifications and 6.96% money safes. This showed that, there was an internal control to the employees' performance; thus, the entity had proper procedures to deal with customers for the better satisfactions as well the operations within the entity. Furthermore, results indicated that, the most applied preventive controls at CRDB were the access restrictions to records, separation of duties and timely reconciliations of accounts in this particular order.

4.2.1.3 Detective Controls

On the issue of the types of detective controls at CRDB bank, respondents were requested to choose multiple controls that existed in their institution. The outcomes of this investigation are shown in Table 4.6 below.

Table 4.6: Types of Detective Controls at CRDB Bank

Detective controls	Frequency	Percentage
Reviews of performance	21	13.54
Reconciliations	26	16.77
Inspection procedures	18	11.61
Set pay levels and pay charges	12	7.74
Management approvals	23	14.83
System access controls	30	19.35
Periodic audits	25	16.12
Total		**100**

Source: Field Data, 2016

As depicted in Table 4.6 above, those (respondents) who chose system access controls were 19.35%, reconciliations 16.77%, periodic audits 16.12%, management approvals 14.83%, reviews of performance 13.54% and set pays and pay charges were 7.74%. This means that, most of them were aware about the existence of detective controls CRDB bank. In addition to that, there is evidence that CRDB used multiple methods in exercising detective controls, most common being system access controls, reconciliations and periodic audits in this sequence.

4.2.1.4 Discussion on Findings Regarding Exploring Types of the Internal Controls at CRDB Bank

The study has found out that, most respondents (90%) concluded that there was an internal control in the bank operations. A big number of them showed that, there was an organization structure, policies, procedures, guidance statements, separations of duties, timely reconciliations, system access controls to mention but a few. This implied that, the existence of these internal control systems helped to provide a frame-work of behavior pattern and standards expected of employees of CRDB bank. Internal controls also, acted as a management tool for the effectiveness for the enforcement of discipline and spelt out the rights and obligations of employees.

According to findings from this study, the internal control systems provided a fair and transparent mechanism for dealing with human resources management issues, so as to avoid bias, unfairness, fear or favour. This helped the bank to achieve its objectives, and also an indicator of safeguarding the bank's assets and liabilities. This was evidenced, through Tables 4.4, 4.5 and 4.6, where results indicated the commitment of the CRDB bank towards the satisfactions of their customers and an effective operation for achieving employees' performance, even though it is believed that, there were different challenges on the operations. This could be further supported by the explanations from one auditor who had this to comment.

> *"There are internal control systems in the bank on employees' performance and my role, is to make sure that there is a sound process and control environment which is evidenced by effective risk management practices, compliance with regulatory and internal policies and prudent business practices, emphasis on competence and integrity at all levels, safe guarding of assets, accurate and timely recording of transactions, appropriate segregation of duties, proper authorization levels and approval processes, active review of strategy, operations and results and lastly timely reporting and escalation of loss events."*

This is related to Awe (2005), who stressed that, internal controls are policies, procedures, practices and organizational structures, implemented to provide reasonable assurance that, an organization's business objectives will be achieved and undesired risk events, will be prevented or detected and corrected, based on either compliance or management initiated concerns.

4.2.2 Employees' Perceptions on the Efficiency and Effectiveness of the Existing Controls at CRDB Bank

In this objective, findings were presented in seven variables, namely; clear definitions of organization structure, the existence of accounting financial management system, commitments of the management on the operation of internal control system, the presence of adequate policies, monitoring the implementation of existing internal control systems, appropriate measures to correct errors in operation of accounting and finance management system, and the integrity of management in execution of its roles.

a) Clear Definition of the Organizational Structure

On the clear definition of the organization structure at CRDB bank, respondents were requested to indicate their perceptions on the extent of a clear definition of the organization structure. Table 4.7 below provides the results.

Table 4.7: The organization structure in CRDB bank

Perception	Frequency	Percent
Disagree	1	2.3
Neutral	3	7.0
Agree	27	62.8
Strongly agree	12	27.9
Total	**43**	**100.0**

Source: Field Data, 2016

Table 4.7 above displays the organizational structure of CRDB bank which is clearly defined to provide a room for an effective control as evidenced by 62.8% of the respondents who agreed, 27.9% strongly agreed, 7.0% were neutral or not sure about the answer and 2.3% who disagreed. This implied that, there was a clear line of authority and responsibility of each individual, thus, employees knew clearly to whom to report and provided a room for an effective control.

b) Existence of Accounting Financial Management System

This section wanted respondents to provide their perceptions on the existence of an accounting financial management system. Table 4.8 below summarizes the results.

Table 4.8: The existence of Accounting Financial Management System

Perception	Frequency	Percent
Neutral	3	7.0
Agree	31	72.1
Strongly agree	9	20.9
Total	**43**	**100.0**

Source: Field Data, 2016

Table 4.8 above suggests that, 72.1% of the respondents agreed that, the financial institution was having a strong accounting financial management system, 20.9% strongly agreed while 7% were neutral. This is an indication that, the requirements of preparing, verifying and distributing reports to the various management levels was achievable. Furthermore, this implied that the institution kept an accurate set of books and thus, proper planning.

c) Commitments of the management on the Operations of Internal Control System

Another issue that was investigated was the commitments of the management on the operations of the internal control. On this issue respondents were requested to indicate their perceptions on the extent management was committed to its operations in terms of internal controls. Table 4.9 depicts the results.

Table 4.9: Commitments of the management on the Operations of Internal Control System

Perception	**Frequency**	**Percent**
Strongly disagree	3	7.0
Disagree	1	2.3
Neutral	8	18.6
Agree	26	60.5
Strongly agree	5	11.6
Total	**43**	**100.0**

Source: Field Data, 2016

Findings from Table 4.9 above have revealed that, respondents agreed that the management was committed to the operations of the system by 60.5% who agreed, 11.6% strongly agreed, 18.6% neutral, while 7.0% strongly disagreed, however, only 2.3% disagreed with the statement of the management's commitment to help in setting the tone of the organization and influenced the control consciousness of everyone in the organization.

d) ***The Presence of Adequate Policies to ensure Effective Collection and Follow up of due Accounts***

In this section, an investigation was made to check whether there were adequate policies to ensure an effective collection and follow up of due accounts by the management. The results are portrayed by Table 4.10 below.

Table 4.10: Presence of Adequate Policies

Perception	**Frequency**	**Percent**
Disagree	3	7.0
Neutral	7	16.3
Agree	29	67.4
Strongly agree	4	9.3
Total	**43**	**100.0**

Source: Field Data, 2016

According to the findings from Table 4.10 above, respondents agreed that there were formalized policies and procedures for all major operations of the entity and authorizations were established at an adequately high level. This was revealed by 67.4% of them who agreed, 16.3% neutral, 9.3% strongly agreed, and only 7% who disagreed. This means that, appropriate and accurate documentation of policies and procedural guidelines were employed to help in determining how the control activities were to be executed.

e) Monitoring the Implementation of the Existing Internal Control Systems

Details about respondents' perceptions on monitoring implementations of the internal control systems are displayed in Table 4.11 below.

Table 4.11: Monitoring the Implementation of Internal Control Systems at CRDB Bank

Perception	Frequency	Percent
Strongly disagree	3	7.0
Disagree	3	7.0
Neutral	8	18.6
Agree	25	58.1
Strongly agree	4	9.3
Total	**43**	**100.0**

Source: Field data, 2016

From Table 4.11 above, it was confirmed that, 58.1% of the respondents agreed with the above statement, 18.6% remained neutral, 9.3% strongly agreed while only 7% disagreed with the statement that, the management did closely monitor the implementations of the existing internal control system in CRDB Bank. However, majority (67.4%) agreed. This implied that, the management was concerned about the performance of the institution and there were efforts to employ all possible ways of meeting these objectives to the bank.

f) Appropriate Measures taken to Correct Errors in Operation of Accounting and Finance Management System

Respondents were also requested to evaluate measures taken by the management to correct errors in the accounting operations. Results on this assessment are given in Table 4.12 below.

Table 4.12: Measures taken to Correct Errors in Operations of the Accounting and Finance Management System

Perception	Frequency	Percent
Strongly disagree	1	2.3
Disagree	8	18.6
Neutral	8	18.6
Agree	24	55.8
Strongly agree	2	4.7
Total	**43**	**100.0**

Source: Field data, 2016

The surveyed results in Table 4.12 above suggest that, majority (55.8%) of the respondents agreed that, an appropriate action was normally taken by management to correct errors in the operations of the system, 18.6% neutral, 18.6% disagreed and only 4.7% strongly agreed. This implied that, the Management's action to correct misfeasance in the system was an indication of commitments to the operations of the internal control system.

g) Management Integrity in the Execution of its Roles at CRDB Bank

Under this question, respondents were asked to provide their perceptions on the management's integrity in execution of its roles. Results are summarized in Table 4.13 below.

Table 4.13: Management degree of integrity in execution of its roles in this bank

Perception	Frequency	Percent
Strongly disagree	4	9.3
Disagree	2	4.7
Neutral	7	16.3
Agree	14	32.6
Strongly agree	16	37.2
Total	**43**	**100.0**

Source: Field data, 2016

Results from Table 4.13 above suggest that, the management acted with integrity in execution of its roles in this bank. This was evidenced by 37.2% of the respondents whom strongly agreed with the statement, 32.6% agreed, 16.3% remained neutral, and 9.3% strongly disagreed while only 4.7% disagreed. This implied that, the management tried its best to keep the institution on course towards their profitability goals and achievement of its mission, and helped to minimize loss of resources, enable production of reliable reports and ensure compliance with laws and regulations.

4.2.2.1 Discussion of Findings on the Employees' Perceptions on the Efficiency and Effectiveness of the Existing Controls

Regarding to the subject of the perceptions on the efficiency and effectiveness of the existing internal controls at CRDB bank, seven issues were looked at, namely; clear definitions of the organization structure, the existence of accounting financial management system, commitment of the management on operations of the internal control system, presence of adequate policies, monitoring the implementation of existing internal control systems, appropriate measures to correct errors in operation of accounting and finance management system, and the integrity of the management in execution of its roles.

Results from Table 4.7 above indicated that, there was a strong relationship between the organization structure and financial performance of the bank. Most respondents in the investigated departments within the bank and all level of the management showed that, there was a clear organization structure whereby about 90.7% clearly stated that, the structure was clearly defined to provide the room of effective controls. Respondents also suggested that, the management should work as a team in setting the organization structure. Thus, this would help the management to be effective in the operations of the daily activities; hence, enabling the institution to achieve its objectives of the financial performance.

Furthermore, results from Figure 4.8 above showed that, there was a proper management accounting system within the bank as one among the internal control. This was shown where 93% of the respondents agreed that; there was a strong management accounting system in all departments. For the total response from the participants, the researcher concluded that the bank had a management accounting system for the purpose of achieving organizational objectives for the financial performance. This reflected an enterprise resource planning system that delivered fast and accurate financial reports within built controls, necessary to ensure an accuracy and reliability of information being reported to shareholders. It is also an indication that, the requirements of preparing, verifying and distributing reports to the various management levels is achievable.

In addition, the extent of commitments of the management in the operations of the internal control, results from Table 4.9 above indicated that, 72.1% of the respondents at all management levels agreed that, the management was committed to the operations of internal control system. According to them, the management provided feedback to the officers about the operations of the system. The management's commitment helped in setting the tone of the organization and influenced the control consciousness of everyone in the organization.

Regarding the issue of policies, respondents agreed that, there were formalized policies and procedures for all major operations of the entity and authorizations, were established at an adequately high level. This was revealed by Table 4.10 above, where 76.7% of the respondents agreed with existence of adequate policies to ensure an effective collection and follow-up of due accounts. According to them, specific lines of authority and responsibility had been established to ensure compliance with the policies and procedures, there was honest and fair dealings with all stakeholders for the benefit of the organization and the responsibilities were delegated and follow up actions were made to get a feedback on results of all tasks delegated. This means that, an appropriate and accurate documentation of policies and procedural guidelines were employed to help in determining how the control activities were to be executed.

On coming to the issue of monitoring implementation of internal control system, it was confirmed that, the management did closely monitor implementation of the existing internal control system at CRDB Bank. In fact, majority (67.4%) of the respondents agreed. It was believed that, the management assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in the audit reports and the monitoring, helped in assessing the quality of performance of the organization over time.

Respondents further pointed out that, there were independent process checks and evaluations of the control activities on the ongoing basis and internal reviews of implementation of internal controls in units, were conducted periodically. This implied that, the management was concerned about the performance of the institution and there tried to employ all possible ways of meeting the objectives of the bank.

Regarding measures taken by the management to correct errors, Table 4.12 above suggested that, majority (60.5%) of the respondents agreed that, an appropriate action was normally taken by management to correct misfeasance in the operations of the system. The same respondents said that, they possessed varied understanding about the aspects of the measures taken to correct any weaknesses in the controls. This implied that, the management's action to correct errors in the system was an indication of commitments to the operation of the internal control system.

Table 4.13 above lastly suggested that, the management acted with integrity in execution of its roles in this bank. This was indicated by 69.8% of the respondents who strongly agreed with the statement, this implied further that, the management tried to do its best to keep the institution on course, towards its profitability goals and achievements of its mission. This helped to minimize loss of resources, enabled production of reliable reports and ensured compliance with laws and regulations.

To summarize it all, internal control activities relate positively with accountability, reliability of financial reporting and performance, effectiveness, efficiency and overall organizational objectives. This seems to agree with Ray and Pany (2001)'s belief that,

> *"Control activities are policies and procedures which help to ensure that management directives are carried out".*

While Whittington and Pany (2004), depict that,

> *"Internal control affected by the entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas, reliability of financial reporting and performance, effectiveness and efficiency of operation, and compliance with applicable laws and regulations."*

Therefore, internal control activities affected employees' performance.

4.2.3 Relationship between Internal Controls and Employee Performance

To meet this objective, a hypothesis was developed and tested. The hypothesis was:

There is a relationship between internal controls and employees' performance.

The hypothesis was developed because of the existing literature supporting the link between these two variables. For example, Stevenson (2004), explained that, performance is the outcome of an individual or group contribution of development in any activity leading to results (positive/negative).The financial statements users, regulators, directors and managers view internal control function as a key component of an organization's corporate governance. Also, Krishnan (2005) also emphasizes that, a proper application of the internal control procedures and policies improves on the performance of an organization. Furthermore, Whittington and Pany (2004), depict that, internal control that affect the entity's management and other personnel, is designed to provide reasonable assurance regarding the achievement of objectives in the following areas: - reliability of financial reporting and performance, effectiveness and efficiency of operation, and compliance with applicable laws and regulations. Therefore in testing this hypothesis, null and alternative hypotheses were set as:

Null hypothesis: There is no relationship between internal control and employees' performance.

Alternative hypothesis: There is a relationship between internal control and employee performance.

In this analysis, the independent variable was taken to be internal control (AveEff) and the dependent variable was employee performance (AvePerf). The names AveEff and AvePerf, were the target variables defined under the SPSS during preliminary data analysis, after averaging the ordinal data measured from the Likert scale of five points for both internal control and employee performance. This type of analysis is common in analyzing data that needs to be changed from ordinal to ratio for subsequent analysis (Kothari, 2004). The tables 4.14 below present the findings of the study.

Table 4.14: Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	AveEff[a]	.	Enter
a. All requested variables entered.			
b. Dependent Variable: AvePerf			

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.625[a]	.391	.376	2.96205
a. Predictors: (Constant), AveEff				

Table 4.16: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	230.928	1	230.928	26.320	.000[a]
	Residual	359.723	41	8.774		
	Total	590.651	42			
a. Predictors: (Constant), AveEff						
b. Dependent Variable: AvePerf						

Table 4.17: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.200	2.674		6.432	.000
	AveEff	.509	.099	.625	5.130	.000
a. Dependent Variable: AvePerf						

The p-value of 0.000 (less than 0.05) indicated in Table 4.16 above implies that, the model of internal control system at CRDB bank is significant at the 5 percent significance level. As illustrated in the Table, the significance value is 0.000 which is less than 0.05 thus the model is statistically significant. This implied that, the relationship existed between the internal control and employees' performance as supported by the analysis above.

4.2.3.1 Discussion on the findings from the relationship between the internal control and the Employees' performance

From the analysis on the relationship between the internal control and the employees' performance presented above, it was seen that, the results obtained showed a positive relationship between the two variables. The test results indicated that, there was enough empirical evidence to accept the set hypothesis that, there was a relationship between the internal control and employees' performance. The significant positive R value (0.376) indicated a positive and significant relationship. This seems to agree with Krishnan (2005) belief that, "Proper application of internal control procedures and policies improves on the performance of an organization." Therefore, internal control activities affected employees' performance in CRDB Bank.

Price Water Coopers (PWC) (2008), also stresses that, an internal control system consists of all the procedures, methods and measures (control measures) instituted by the board of directors and executive management to ensure that, operational activities progress in a proper fashion. Organizational measures for internal control are integrated into operations, which means that, they are performed simultaneously with working processes or performed directly before or after work is carried out. Hevesi, (2005), looks at controls as the integrations of the activities, plans, attitude, policies and efforts of the people of an organization working together to provide a reasonable assurance that, the organization will achieve its objectives and mission.
This can also be supported by one of the top managers who had this to say on that regards;

> *"Internal controls have a great relationship with the performance of employees considering that, management issues guidelines and circulars from time to time to supplement the personnel policies and*

are ready reference documents for use by management, staff and all employees. These are used as practical references in all issues related to the performance of human resources in the bank."

4.2.4 Challenges facing CRDB bank in implementing the internal control for employees

The last objective of this study was to explore challenges facing CRDB bank in implementing the internal controls for employees. According to the information that was obtained, challenges facing CRDB in its implementation of the internal control systems were mainly seven, namely; cost benefit constraints, management override, collusions, breakdowns, lack of skills and knowledge, lack of commitments and judgment. They are further discussed in details as hereunder.

a) Cost Benefit Constraints

Cost benefit constraint was reported whereby employees were overloaded with many tasks. When designing the internal control framework and in particular, specific control procedures, it is important to compare the potential benefits to be achieved (in terms of lowering risk and achieving objectives) with the cost of implementing such controls. Some control procedures that provide the most assurance, may be too costly to implement and other, less costly, compensating controls may have to be substituted. Small and medium-sized financial institutions may need to utilize this type of approach to ensure proper controls are in place to avoid incurring additional costs. In complaining about this situation, one of the respondents said the following;

> *"One person does more than one task due to cost constraints of the institution/firm hence, breaching the procedures."*

In relation to the above, Shandly (2004), states that, separation of duties is a measure of good accountability and internal control. This will ensure that one individual, cannot perpetuate and conceal errors and irregularities in the normal course of duties. Segregation of duties is not always possible due to limited staff which is caused by the cost constraints. Strong internal controls require the segregation of responsibilities for authorizing transactions, physical custody of assets and the related record keeping.

b) Management Override

Even though internal controls are well-designed and effective, the same controls may be overridden by the management itself. The management's position in the organizational hierarchy, creates an opportunity to manipulate or override otherwise effective and properly designed controls. Some high level personnel were reported to override prescribed policies and procedures for personal gains or advantage. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. The management generally has the authority to direct that, controls be bypassed or ignored at any time. One respondent had this to say;

> *"The management overlooks the internal control due to overestimated targets. Once these targets are not met, the internal control under operates."*

With Lannoye (1999), management may override or disregard prescribed policies, procedures, and controls for improper purposes. The bottom line however is that, hiring and promoting managers with a good character and high ethical values can go a long way in building a positive control environment and diminishing the risk of management override of controls.

c) Collusion

Collusion is a secret agreement or cooperation between two or more employees for an illegal or dishonest purpose. Control systems can be circumvented by employee collusion. It was reported that, individuals act collectively to alter financial data or other management information in a manner that cannot be identified by control systems. Often, internal controls are designed so that, one employee functions as a check on another employee's work. In such situations, there is always the risk that, employees who are supposed to perform independent control procedures may instead choose to work together to circumvent management's controls. It is difficult to set up a system of internal controls to protect against collusion. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. In a related concern one respondent gave an example of collusion which took place at the CRDB bank branch at Chanika on the outskirts of Dar es Salaam in the previous year. He had this to say;

> *"It appears that there was collusion between the bandits and some dishonest bank employees, as it was later discovered that despite the CCTV camera not functioning for 24 hours, no measures had were taken by the bank managers to fix it, something which made him a suspect in one way or the other."*

According to Williams (2009), "There is always a risk that, collusion between individuals will destroy the effectiveness of segregation of duties." For example, an individual receiving cash receipts from customer can collude with the one who records these receipts in the customers' records in order to steal cash from the entity.

d) Breakdowns

Even a well-designed, internal control can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems. Respondents also reported obsolesce of materials to implement control of the environment for example security cameras.

In a related case, Thomas (2010) argues that, internal controls provide a reasonable but not absolute assurance that the entity's goals and objectives will be achieved.

e) Judgment

The effectiveness of controls will be limited by decisions made with a human judgment under pressures to conduct business based on the information at hand. It was reported that, an effective internal control was also limited by the realities of a human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions affect achievement of objectives, with or without good internal control. Lannoye (1999), had this to say in relation to the above expiations;

> *"Internal control becomes ineffective when management fails to minimize the occurrence of errors for example, misunderstanding instructions, carelessness, distraction, fatigue, or mistakes."*

f) Lack of commitments

The study also, has found out that, there was laxity by the top management in enforcing the controls. For instance; budgets were never adhered to. They believed that, there was lack of commitment to the effectiveness of the system. They reported lack of monitoring of the functioning of the systems of the internal control and lack of an adequate supervision; for instance, one respondent had this to say.

> *"A responsible officer only signs requisitions but without greatly getting involved in the monitoring of the entire payment system, this seems to weaken the controls in the process."*

In addition to that, there was a communication gap between managers and this consequently affected the process of budgeting, management of funds and eventually reporting.

Therefore, respondents proposed that, workload should be reduced and duties should be segregated so as to avoid collusion/interference of obligations. Project coordinators also, needed to be furnished with regular information about the financial status of their projects. They also suggested that, the communication between line managers should be effective so as to improve their relationship. In a related concern, they pointed out that, lack of appropriate controls would lead the institution losing a lot of money. Other concern related to other employees was the lacking of awareness of the need for the systems of internal controls. This however, can be addressed by mentoring, short term training and guidance by senior managers.

CHAPTER FIVE

SUMMARY, CONCLUSSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides the discussions of research findings presented in chapter four, conclusions and recommendations are presented in accordance with the four research objectives. These were; to explore types of the internal controls in place at the case under study, to examine the efficiency and effectiveness of the existing controls at the case under study, to examine the relationship between internal controls and employee performance at CRDB bank and to explore challenges facing CRDB bank in implementing the internal control for employees.

5.1. Summary of the Findings

This section summarizes findings of the study by following the chronology of the objectives presented above.

5.1.1 Types of Internal Controls in Place at the Case under Study

Findings showed that, a large number of the respondents affirmed with the existence of internal controls on employees' performance. As presented above, 90% of the respondents concluded that, there was an internal control in the bank operations whereby several control elements, were reported to enable the bank operate efficiently and effectively to achieve the organizational objectives. Respondents showed that, there was directive, detective, and preventive controls such as organization structure, policies, procedures, guidance statements, separation of duties, timely reconciliations, system access controls to mention but a few. This implied that, the existence of these internal control systems help to provide a framework of behavior pattern and standards expected of employees of CRDB bank. Apart from the general explanation provided, the individual variables were also confirmed to a great extent.

For example, it has been found out in this study that, it was impossible for staff to have an access to all valuable information. This seems to agree with the internal control procedures and manuals that, there should be a separation of duties between the person within the entities to result effective and efficient operation and the achievements of organizational objectives within the time bound.

In connection to that, it is impossible for the staff to have an access to all information without the consent of a senior staff; this implied that the bank has established control on the authorization in all material items, so as to avoid fraud and irregularity within the bank.

According to the findings, the internal control systems provided a fair and transparent mechanism for dealing with human resources management issues so as to avoid bias, unfairness, fear or favor. This is in line with the Basics of Internal Controls (2009) that, preventive and detective controls are essential to an effective internal control system.

5.1.2 Efficiency and Effectiveness of the Existing Controls at the Case under Study

Based on the findings of the study, it is concluded that, the institution had an effective and efficient internal control system as supported by the study findings. On this regard, it has been uncovered that, the organizational structure of the bank was clearly defined to provide a room for effective control. This implied that, the management was effective in the operation of the daily activities; hence, enabled the bank to achieve its objectives of the financial performance. There was also, a proper management accounting system within the bank as one among the internal control. This also implied that, there was a direct relationship between the management accounting system, and the management accountability towards the operations and financial performance of bank. Thus, it can be concluded that, the bank had a management accounting system for the purpose of achieving organizational objectives of financial performance. Furthermore, it was found out that, the management was committed to the operation of the system, and that, there were adequate policies to ensure effective collection and follow up of due accounts. This means that, an appropriate and accurate documentation of policies and procedural guidelines, helped to determine how the control activities were to be executed.

In addition to that, it was found out that the management closely monitored the implementation of the existing internal control system, and that, an appropriate action was normally taken by the management to correct misfeasance in the operations of the system. In fact, management's action to correct misfeasance in the system was an indication of commitments to the operations of the internal control system. Furthermore, it was reported that, management acted with integrity in execution of its roles in this bank.

5.1.3 Relationship between the Internal Controls and Employees' Performance

From the analysis presented above, it was found out that, there was a positive relationship between the internal control and employees' performance. Results documented in this study illustrated that, the relationship between the two construct was statistically significant, therefore, there was enough empirical evidence to accept the set hypothesis that, there was a relationship between internal control and employee performance. Findings documented here seem to agree with the stand of other scholars like Krishnan (2005), Ray and Pany (2001) as well as Whittington and Pany (2004) whom believed that, proper application of internal control procedures and policies, improved on the performance of an organization.

5.1.4 Challenges Facing CRDB Bank in Implementing the Internal Control for Employees

This study uncovered a host of challenges which hindered the implementation of the internal control for employees. The most cited challenges however were; management override, collusion, judgment, break downs, lack of commitments from the management and employees. Other challenges pointed out by the respondents included lack of skills and knowledge on an effective implementation of the controls systems, lack of integrity by some employees, fraud, and lack of morale towards the implementation of internal controls.

5.2 Conclusions

Based on the findings of this study, the following are the areas which the study can be said to makes contribution. The contributions are directed to policy, knowledge and management practices as indicated below.

5.2.1 Contribution to Policy

Study findings are expected to act as an eye opener to the authorities concerned so that, they can complement the policies by the regulatory bodies and the efforts of the banking sector, in addressing problems. This helps to confirm the present perceptions about the effectiveness of the internal control on employees' performance, and thus, the company will redefine approaches that would facilitate the success of the banks objectives. Study findings also are expected to identify gaps in the systems of the internal control in the banking industry.

5.2.2 Contribution to Knowledge

Findings of this study have a potential to improve our understandings on the perceptions of the types of internal controls that are so effective and efficient, towards achieving the organization objectives. Findings have enlightened back to the reviewed theory and are supported by the existing literature; alternatively, findings have also improved our understandings regarding the challenges faced by financial organizations, in implementing the internal controls for employees.

5.2.3 Contributions to the Management Practices

Based on the findings of this study, commercial banks are expected to put in place activities for their day to day management of safeguarding assets, prevention and detection of frauds, errors and irregularities. Findings also, should act as a guide to managers of banks as well as other business organizations, on how to face challenges in the implementation of an effective internal control.

5.3 Recommendations

Based on the findings, the study is making recommendations to three main stakeholders, namely; the management, employees and other financial institutions.

5.3.1 Recommendations to the Banks' Management

1. The effectiveness of internal control depends on the management involvement and requirement. Therefore, the management of CRDB should increase its co-operation and support to the internal audit department and other departments, to promote efficiency and effectiveness of internal

control. Thus, management should incorporate different skills and knowledge in the operation of internal control of the entity so as to make them conduct their work properly.

2. Mentoring, short term training and guidance by senior managers. Education is one among the important indicator of efficient of internal control's function. A good education and training should be encouraged and provided by all employees in all departments, in collaboration with the management to meet the bank's needs or objectives.
3. Since it was evident in the study that, the staffing level in some departments was not adequate which caused collusion and interference of duties, and also evidenced by not conducting regular review activities, not operating efficiently as well as their reports not being regular, the study therefore, recommends a competence profiling which should be based on what the bank expects. Workload also, should be reduced and duties should be segregated so as to avoid collusion/interference of obligations.
4. The study also recommends that, the institution should establish and manage knowledge/information management system, within the institution so as to enable all parties within the institution, to freely access and utilize the official information.
5. The management should establish indicators and put benchmarks that could help them to measure the performance of the internal control so as to understand exactly if the internal controls added value to organization.
6. The management of CRDB should promote an involvement of all level management in objectives setting of the bank, so as to attract excellent internal control. An efficient internal auditing department should be regarded

as a good place to develop employees' careers, because internal auditors can understand the whole operations in organization.

5.3.2 Recommendations to Employees

1. Internal control is very complicated professional field, which needs a wide range of knowledge, experience, insight, and maturity, in order to execute its control well. Therefore, professional license, integrity, independence, objectivity, knowledge and experience are all very important.
2. Communication ability is also very important. Employees should regard communication as tools to manage relationship with their customers and the management, in order to create mutually reliability, and furthermore, to reach the organizational goals. The communication between line managers should be effective so as to improve their relationship.
3. Among the challenges faced by the auditors, is lack of sufficient training. It is advisable that they should participate in short term training such as seminars and workshops conducted by NBAA, IIA or other institutions, or they could conduct an in-house training by hiring experts from outside to facilitate some issues, such as risk assessment and the like.

5.3.3 Recommendations to financial institutions

1. The study recommends firms to cultivate integrity and ethical values among its employees and management. Effective board of directors, management, and audit division, should be established in organizations. Qualified and effective internal auditor should be hired in organizations. Internal and external auditor should be encouraged to interact well. A culture should be

developed in organizations for a good attitude and policies of management in regard to the importance of the internal controls in revenue generation.

2. Firms should design internal controls to ensure efficiency and effectiveness, reliability of financial reporting as well as compliance with laws and regulations. This can be achieved by a periodic performance review and evaluation of the adequacy and effectiveness of the controls, designed by the internal auditor department.
3. Effective communications, should occur in a broad sense with information flowing down, across, and up within all the sections of the organization. Policies, procedures, and mechanisms, should be put in place to ensure directives of the management are properly carried out. Internal controls need to be adequately monitored in order to assess the quality and the effectiveness of the system's performance over time.

5.4 Areas for Further Study

This study is not exhaustive of all the factors that affected employees' performance in this financial institution. It is clearly indicated that, the study focused specifically on the effects of the internal control on employees' performance. A comparative study on other factors should be undertaken in order to conclude which one is more efficient and effective. Furthermore, it is recommended to conduct a study in this area by involving more banks or by considering other types of institutions.

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APPENDICES

Appendix 1: Questionnaire for Employees

This study is based at the University of Dodoma. Its major objective is to assess the Effects of Internal Controls on the Performance of Employees of CRDB Bank of Dodoma Municipality – Tanzania. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire. In case the final account of this work may contain confidential information and its report could be harmful to organization or individual, confidentiality is assured by the University. Such report will be seen only by the Supervisor and the Examiner for examination purposes.

PART I: BIO-DATA INFORMATION

1. Sex of respondent: Please tick (√) appropriately:

   Male ☐

   Female ☐

2. Age of the respondent: Please tick (√) appropriately:

   21 – 30 years ☐

   31 – 40 years ☐

   41 – 50 years ☐

   50+ years ☐

3. Level of education attained. Please tick (√) appropriately.

   Master Degree holder ☐

   Bachelor Degree Holder ☐

   Secondary Education ☐

   Other (Please specify…………………………… ☐

4. For how long have you been working with this institution? Please tick (√) appropriately.

   Less than two years ☐

   2 – 4 years ☐

   5 – 6 years ☐

   More than 6 years ☐

PART II: TYPES OF INTERNAL CONTROLS

5. Enumerate all the types of internal controls which are in place in this organization. Please tick (√) appropriately. Multiple responses possible.

S/N	Types of Internal Controls	Tick (√)
Group A: Directive Controls		
1	Organization Structure	
2	Policies	
3	Procedures	
4	Guidance statements i.e. Code of Ethics	
5	Job Descriptions	
Group B: Preventive Controls		
1	Separation of Duties	
2	Adequate documentation of Transactions	
3	Physical control over Assets	
4	Management Approvals, Authorizations and verifications	
5	Timely reconciliation of Accounts	

6	Access restrictions to records and Accountability for resources	
7	Money safes	
Group C: Detective Controls		
1	Reviews of Performance	
2	Reconciliations	
3	Inspection Procedures	
4	Set pay levels and pay charges	
5	Management Approvals	
6	System access Controls	
7	Periodic Audits	

PART III: EFFICIENCY AND EFFECTIVENESS OF THE EXISTING CONTROLS

6. Circle the number that best indicates your opinion on the questions using the following scale.

	Perceptions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a)	The organization structure in CRDB bank is clearly defined	1	2	3	4	5
b)	Your financial institution is having an accounting financial management system	1	2	3	4	5
c)	The management is committed to the operation of the internal control system	1	2	3	4	5
d)	There are adequate policies to ensure effective collection and follow up of due accounts	1	2	3	4	5
e)	The management does closely monitor implementation of existing internal control system in your bank institution	1	2	3	4	5
f)	There are appropriate measures taken to correct misfeasance in operation of accounting and finance management system	1	2	3	4	5
g)	The management acts with a great	1	2	3	4	5

	degree of integrity in execution of its roles in this bank institution					

7. Please provide reasons for each of your evaluations in Question 6 above.

a) ………………………………………………………………………………………

………………………………………………………………………………………

b) ………………………………………………………………………………………

………………………………………………………………………………………

c) ………………………………………………………………………………………

………………………………………………………………………………………

d) ………………………………………………………………………………………

………………………………………………………………………………………

e) ………………………………………………………………………………………

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f) ………………………………………………………………………………………

………………………………………………………………………………………

g) ..……………………………………………………………………………………

PART IV: EMPLOYEE PERFORMANCE AT CRDB BANK

8. Circle the number that best indicates your opinion on the questions using the following scale.

	Perceptions	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
a)	Level of absenteeism is low					

		1	2	3	4	5
b)	Proper record keeping	1	2	3	4	5
c)	Compliance with rules and regulations	1	2	3	4	5
d)	Level of customer satisfaction is high	1	2	3	4	5
e)	Level of turnover is low	1	2	3	4	5
f)	Proper financial reporting	1	2	3	4	5
g)	Level of transparency is high	1	2	3	4	5
h)	Better product and service delivery	1	2	3	4	5

9. Give reasons for your responses in Question 8 above.

a) ……………………………………………………………………………………

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b) ……………………………………………………………………………………

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c) ……………………………………………………………………………………

……………………………………………………………………………………

d) ……………………………………………………………………………………

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e) ……………………………………………………………………………………

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f) ………………………………………………………………………………………

………………………………………………………………………………………

g) ..……………………………………………………………………………………

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h) ………………………………………………………………………………………

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PART V: CHALLENGES

10. List the challenges that are faced by CRDB bank in implementing internal controls for employees.

a) ………………………………………………………………………………………

………………………………………………………………………………………

b) ………………………………………………………………………………………

………………………………………………………………………………………

c) ………………………………………………………………………………………

………………………………………………………………………………………

d) ………………………………………………………………………………………

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e) ………………………………………………………………………………………

………………………………………………………………………………………

f) ………………………………………………………………………………………

………………………………………………………………………………………

g) ..……………………………………………………………………………………

………………………………………………………………………………………

h) ……………………………………………………………………………………

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11. In your opinion, how can the challenges in (10) above be solved?

a) ……………………………………………………………………………………

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b) ……………………………………………………………………………………

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c) ……………………………………………………………………………………

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d) ……………………………………………………………………………………

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e) ……………………………………………………………………………………

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f) ……………………………………………………………………………………

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g) ..…………………………………………………………………………………

……………………………………………………………………………………

h) ……………………………………………………………………………………

……………………………………………………………………………………

Thank you for your valuable time

Appendix 2: Interview Guide for Management

1. Are there any internal control systems in the bank on employee performance? Could you please mention them?
2. Are the systems of internal controls referred to in (1) above functioning as they are intended to? Please elaborate on this.
3. In your opinion, what would you consider to be the main measures of employee performance in a banking institution?
4. In your opinion, do you think internal controls have any relationship with the performance of employees? In which ways?
5. What challenges do you face in implementing internal controls in CRDB bank? Please mention and provide a short description.
6. In your opinion, what needs to be done in order to overcome the challenges you have put forward?

Thank you for your participation.