

**THE IMPACT OF INTERNAL CONTROL SYSTEM ON FINANCIAL PERFORMANCE
IN TANZANIA:
A CASE OF LISTED COMMERCIAL BANKS AT DAR ES SALAAM STOCK EXCHANGE**

**BY
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**A RESEARCH REPORT TO BE SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER'S DEGREE IN ACCOUNTANCY AND FINANCE
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DECLARATION

I, **Lilian Kwatilaho**, declare that this report is my own original work and that it has not been presented and will not be presented to any University for similar or any other degree award than the Institute of Accountancy Arusha.

Signature.....

Date.....

CERTIFICATION

I, the undersigned certify that I have read and here by recommend for acceptance by Institute of Accountancy Arusha the research report titled: **“Impact of Internal Control System on Financial Performance in Tanzania: a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange”** in fulfilment of the requirements for the Master’s Degree of Accountancy and Finance offered at the Institute of Accountancy Arusha.

.....

(Supervisor Signature)

Shikunzi Obadia

Date

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DEDICATION

The work is dedicated to my lovely family members including my mom Mrs Dina O. Kwatilaho, my husband Mr Manfred Gabinus, my beloved daughters Janeth Manfred and Jacqueline Manfred for their love, patience and persistence during the whole period of my study. Their well wishes and prayers have led to the accomplishment and success of this hard academic tasks. in addition, the work is also dedicated to my later Daddy Mr. Barthazar Kwatilaho who passed away in November 1997 may God rest his soul in eternal peace, Amen

ABSTRACT

This study assessed the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange. This study adopted descriptive research design. A total sample of 36 Support managers, Head of Corporate and regulatory affairs, chief finance officers, chief business officers, risk managers, credit managers, and Human Resources Managers and DSE officials were used in this study. Both quantitative and qualitative techniques were used. Both interview, questionnaires and secondary data were used in this study. The study concluded that there was a not significant effect of control environment on the financial performance of commercial banks listed at DSE in Tanzania. The study established that some management of these banks failed to act with great integrity while executing their roles. The study further found out that there was a significant effect between control activities and the financial performance of listed commercial banks. It is recommended that, commercial banks listed at the Dar es salaam Securities Exchange should re-evaluate their internal controls systems and strengthen their weak areas so as to improve their financial performance, there is a need for management to fully understanding their obligations and take necessary actions in ensuring financial performance of their commercial banks, commercial banks should implement efficient control activities to guide their operations. The banks' management specifically the human resource management should examine the level of employee integrity in allocating them responsibilities especially employees who handle confidential information, commercial banks should ensure that their monitoring strategies are geared towards effective operations and achievement of organization goals. The management of commercial banks should ensure that there are policies in place guiding the banks' dealing with threats to the banks' operations. Commercial banks should transparently report on the structure and performance of their governance, risk management and internal control systems in their various reports to internal and external stake- holders for example through their periodic accountability reports.

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LIST OF ABBREVIATIONS

DSE	:	Dar es Salaam Stock Exchange
IAA	:	Institute of Accountancy Arusha
KMO	:	Kaiser Meyer Olkin
OLS	:	Ordinary Least Squares
ROA	:	Return on assets
ROE	:	Return on Equity
NSE	:	Nairobi Stock Exchange

CHAPTER ONE

1.0 Introduction

This chapter highlighted the background of the study, statement of the problem, research objectives, scope of the study, limitation of the study and organization of the study.

Background of the Study

Global, Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Aburime, 2018). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Amudo, 2019). Ashbaugh-Skaife (2017) asserted that an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives.

Data available from World Bank (2019) showed that there was decline in service in all sectors of the economy. Poor financial performance of quoted companies adversely affects the economic growth of the Kenyan economy. Most quoted companies have functional internal audit departments charged with responsibility of providing management with re-assurance that internal control systems are adequate and quality of services is in place (Institute of Internal Audit, 2009). There is however, continued poor financial performance, where budgets are not followed, rules and regulations on the use of finances are not adhered to and there is massive unaccounted for funds (Auditor General, 2008). This has put companies at risk of financial inadequacy, employee dissatisfaction and poor financial performance (Mikes & Kaplan, 2014).

In the aftermath of corporate scandals and the global financial crisis, corporate governance has received significant attention from regulators and the public. Regulatory responses have focused on increasing disclosure requirements relating to corporate governance and this has, in turn, driven increased awareness and demand for internal assurance on corporate governance processes, including internal control and risk management. Barra (2017) observes that in recent years, stakeholder's expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks. Previous studies have focused on the contribution of internal control systems on financial performance of small and medium scale business enterprises (Nyakundi, Nyamita & Tinega, 2014). Mawanda (2008) researched on effects of internal control systems on financial performance in an institution of higher learning. Khamis (2013) researched on contribution of internal control systems to financial performance of financial institution. Majority of the studies involving internal controls have focused on investigating the characteristics of firms that disclose material weaknesses in internal control. Al-Matari, Al-Swidi, Faudziah and Al-Matari (2012) noted that there was notable lack of research in developed as well as developing nations regarding the direct association of internal control systems and firm performance

Muio (2012) investigated the effect of internal control systems on financial performance of private hospitals in Tanzania. This study however, did not take into account the commercial banks. The study indicated that internal control systems had a significant effect on the financial performance of private hospitals in Tanzania. Internal control systems are therefore a major determinant of financial performance. Mawanda (2008), states that there is a positive relationship between proper internal control systems and financial performance of organizations. Internal control systems are therefore a major determinant of financial performance. Mawanda (2008), states that there is a positive relationship between proper internal control systems and financial performance of organizations. Internal control systems act as a means of adding credibility to the financial statements. Proper internal control systems lead to the production of reliable reports which enhances the accountability function of management of an entity. Among the key roles of management is to ensure that reliable financial information is prepared

Nyakundi et al. (2014) assessed the effect of internal control activities on liquidity incorporating risk assessment. This study did not review in details all the internal control system aspects. Ejoh and Ejoh (2014) assessed the correlation between internal control activities and financial performance of universities in Nigeria. This study failed to show the direct impact of internal control systems on financial performance. Ayagre et al. (2014) investigated the adequacy of internal control on Ghanaian banks and only focused on environment and monitoring. Locally, Niyonsenga and Abuya (2017) studied on internal control and bank success in Rwanda with reference to I&M Bank by interrogating upon the role of internal control system on risk management, while Uwingabiye (2019) assessed internal control system component and financial performance in public institutions in Rwanda and focused on monitoring, control environment, information and communication.

Commercial banks play a crucial role in the economic resource allocation of countries by channeling funds from depositors to investors continuously (Ongore and Kusa, 2013). Commercial banks make most of their money from lending to their customers in various forms and trading in security exchange markets. The soundness of the banks largely depends on their financial performance, which indicates the strength and weakness of a particular bank (Makkar & Singh, 2013). Financial performance is evaluated by the profitability. According to the DSE, BOT Reports (2016), and there are 14 licensed commercial banks in Tanzania.

In the Tanzanian economy, studies done relating to internal control systems and financial performance do not show directly the impact of internal control systems on financial performance in commercial banks listed at Dar es Salaam stock exchange. Most of researches on the same area have been looked at from the broad perspective i.e. commercial banks' financial performance. The present study will narrow the study to Commercial Banks Listed at Dar es Salaam Stock Exchange in Tanzania. Further, this study will seek to fill this gap by assess the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange .

1.2 Statement of the Problem

The internal control is an essential tool for corporate governance to enhance effectiveness and reliability in financial reporting (Chepkorir, 2016). Such controls further provide total assurance that the target set by the organization will be achieved (Cole, 2022). Normally, internal control systems are set up by organizations to aid them in meeting their objectives, ensure generation of reliable financial reports, increase organizational compliance to financial regulations as well as prevent loss of organizational resources (Chukwu, 2023). Active involvement and proper financial management of financial institutions by their management has fostered growth and prosperity of these institutions. Regardless of the documented benefits of adopting such systems, it remains unclear if such systems significantly affect financial performance of financial institutions in the Tanzania.

The most research works try to express the problem of internal control system at different angle. This is evidenced by the following research works, Cytonn (2019), was emphasizing on the internal control and financial performance, the above research fail to show the direct contribution of internal control to the financial performance. Ewa (2022) and various journal and article try express the problem of internal control system, evaluation of internal control system both researches and journal and articles do not analysis the positive correlation between the internal control and financial performance of the financial institution

However, despite the above, commercial banks listed at Dar es Salaam stock exchange still struggles 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. Furthermore, business transactions are not carried out according to the Generally Accepted Accounting Principles (GAAPs). This leaves the assets of the firm being improperly safeguarded, incomplete and inaccurate information'

The financial statements of commercial banks listed at Dar es Salaam stock exchange have shown huge financial losses. This financial position has negatively affected the growth of the commercial banks in Tanzania thus raising major concern among its stakeholders and the public at large. It has been unable to meet its financial obligations thus increasing its indebtedness. This research, therefore, attempted to the

impact of internal control systems on financial performance in Tanzania, a case of commercial banks listed at Dar es Salaam stock exchange

1.3 Objectives

1.3.1 General Objectives

The general objective of this study was to assess the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange.

1.3.2 Specific Objectives

(i) To determine the effect of Monitoring of Controls on financial Performance of ~~commer~~ banks listed at DSE in Tanzania

(ii) To determine the effect of Control Environment on financial Performance of commercial banks listed at DSE in Tanzania

(iii) To establish the effect of Control Activities on financial Performance of commercial banks listed at DSE in Tanzania.

1.4 Research Questions

(i) To what extent Monitoring of Controls have an effect on financial Performance of ~~commer~~ banks listed at DSE in Tanzania

(ii) To what extent Control Environment have an effect on financial Performance of commercial banks listed at DSE in Tanzania

(iii) To what extent Control Activities have an effect on financial Performance of commercial banks listed at DSE in Tanzania.

1.5 Scope of Study

The study concentrated on the licensed commercial banks in Tanzania listed at DES. The research, however, will focus on the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange. The reason for this was that the

listed banks are licensed, public in nature, and their data is readily available with the DSE, Bank of Tanzania, and audited published financial reports. The researcher used primary and secondary data gathered from the respondents from the selected listed commercial banks in Tanzania by use of questionnaires and secondary data from published reports, audited financial statements from 2010 to 2010.

1.6 Significance of the Study

The study will help managers of the banks listed at the DSE create proper internal control systems that will improve operations, boost profitability, and give them a competitive edge in the banking market in the future. Given the profitability offered by sound internal control systems, the results will serve as the basis for investors to choose the ideal portfolio to hold at any given time. This will help people understand the kinds of data that organizations report on their financial statements about profitability and effective internal control systems, enabling them to decide which businesses and firms to invest in the future with the knowledge that they are making an informed choice. The results of this study will be useful to scholars because they will fill in research gaps and provide references for upcoming studies in the area of internal control systems. They will also add to existing hypotheses and literature on practical internal control systems in the banking sector. It is also one of the requirements for the completion of the master's degree in Accounting and Finance at the Institute of Accountancy Arusha.

1.7. Limitations of the study

The research only considers banking businesses with DSE listings older than 13 years. Financial and time restrictions are both present. The secondary usage of data is also restricted since it raises potential validity issues. Thus, the research took all required measures to ensure the accuracy of the data. This inquiry also utilized purposeful sampling, which might result in a bias in judgment.

1.8 Organization of the study

The report was organized in five chapters. Chapter one provided the introduction, which consists of background to the problem, statement of problem, research objectives, and research questions, significance of the study and scope of the study. Chapter two presented the review of related literature on the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks

Listed at Dar es Salaam Stock Exchange, covering such aspects as theoretical framework, empirical part and conceptual framework. Chapter three described the methodology employed in the study, chapter four discusses findings of the results and the last chapter of this report made a conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents the theoretical definitions, theoretical literature review, empirical literature, and conceptual framework on the impact of internal control systems on financial performance in Tanzania

2.2 Definitions of Concepts

2.2.1 Internal Control Systems

King (2011) claims that an organization's internal control systems are the steps it takes to reach its goals, outcomes, plans for authority performance, arrangements, and monitoring across the board or in each division.

2.2.2 Risk Management and Monitoring

In theory, risk management in the banking industry is coming up with and putting into action a plan to deal with possible losses. In the banking business, the main goals of risk management strategies are often to limit a bank's exposure to loss or risk and keep the value of its assets.

2.2.3 Financial Performance in Banking industry

Financial performance is a measure of company's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Mishkin, 2007).

2.3 Theoretical Literature Review

2.3.1 Agency Theory

Agency theory, asserts that a reputable auditor – an auditor who is perceived to meet expectations – is appointed not only in the interest of third parties, but also in the interest of management. A company is viewed as the result of more or less formal “contracts”, in which several groups make some kind of contribution to the company, given a certain “price” (Watts & Zimmerman, 1978). Company management

tries to get these contributions under optimum conditions for management: low interest rates from bankers, high share prices for stockholders, and low wages for employees (Berle & Means, 1932)

The key insight of Jensen and Meckling (1976) was to model the relationship between owners and managers similar to one between a principal and an agent. The owners contract the managers to perform the controlling tasks of a firm, and as both sought to maximize their own utility and are self-interested a conflict of interest arises. As the managers have the effective control of the firm, they have the incentive and the ability to consume benefits at the expense of the owners (Coarse, 1937). Jensen and Meckling define the costs caused by the divergence of interests between owners and managers as agency costs consisting of; the monitoring expenditures by the principal, bonding expenditures by the agent and the residual loss

Berle and Means (1932) recorded that internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits. Their argument assumed that providing this additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital. The theory guided this study in answering the question on effect of control environment on the financial performance of commercial banks listed at NSE Kenya as recent case studies on internal auditing illustrated the importance of the control environment when studying internal auditing practices and importance of the control environment in explaining the existence of an internal audit function

2.4 Empirical literature review

A study by Channar , et al.(2015) on internal control effectiveness and its correlation with financial performance in Pakistan indicated that internal control system effectiveness is strongest in private banks and weakest in Islamic banks, although the difference is not statistically large, but slight variation exists. Furthermore, private banks were more likely to perform better than public banks. A study by Barra (2010), was done to determine if internal controls and the penalties had an effect on employees' attempts to act fraudulently. The researcher used analytical method and focused on control activities and monitoring. Collection of data was done by the scholar from managerial and non- managerial employees. The scholar's findings revealed that availability of control activities including separation of duties led to high cost of engaging in fraudulent behaviors on the part of employees. Ejoh and Ejom (2014), carried out a research to check if internal control activities had impact on Nigerian tertiary institutions' financial Performance.

The scholars measured the performance using indicators including accountability, liquidity and reporting. The primary data and secondary data sources were used by the scholars to collect data which was used in the study. Primary data was collected by the scholars through structured questionnaires and interviews. Secondary data on the other hand was collected by the scholars from College publications, text books and journals.

Presentation of data was achieved by the scholars with the help of tables and percentages. Furthermore, findings revealed that financial information which was valuable could be accessed by an individual staff without the permission given by the other staff. Generally, their findings as per the study indicated that Nigerian tertiary institutions' financial Performance was not significantly related to internal controls

Ejoh and Ejom (2014) undertook a research on internal control system and financial performance in Nigeria, where findings revealed a dimension of internal control system and financial performance in Nigeria were found to be positively related to performance measured in terms of liquidity, accountability and reporting. Nyakundi et al. (2014) analysed the internal control system and financial performance in Kenya. The research reveals existence of a positive correlation between internal control system and the

growth rate for earning. Furthermore, the study evidenced the level of skills, the degree of awareness of the staff within internal control system is also correlated with the probability and the level of awareness in internal control system to the increased income ($r=0.988$).

A study carried out by Ayagre et al. (2014) on the elements of internal control system and its effect on financial performance of commercial banks, indicate that, tough controls system was established where control environment and monitoring activities are felt to be the main elements control system of banks in Ghana and these two elements have been extremely evidenced by the respondent's with the mean of 4.72 and 4.66 respectively. Uwaoma (2015) explored the role of internal control system on financial performance using a case of production in Nigeria. Results demonstrated a positive correlation between internal control system and effective utilization of organization funds with a positive correlation with 0.9345. Furthermore, for R squared of 0.87330 demonstrated that 87.33% of the total adjustment in financial management are disseminated to appropriate money in the bank

Jones (2008) compared internal control, accountability and corporate governance in medieval and modern Britain. He used a modern referential framework (control 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. He 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.

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 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. 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 the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Moberg and Romar (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

Goh (2009) studied 208 firms on audit committees, boards of directors, and remediation of material weaknesses in internal control. He 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). He 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.

Ewa and Udoayang (2012) sought 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 analysed using percentages and ratios. The study found 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.

Mawanda (2008) studied on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study sought to establish the relationship between internal control systems and financial performance in an 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 sought to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance.

Amudo and Inanga (2009) a 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. 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.

Kakucha (2009) evaluated the level of effectiveness of internal controls of enterprises operating in Nairobi. 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 risk analysis, and lack of proper flow of information.

The study also found 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 study recommended that there was need to enlighten the operators of small business of what constitutes an efficient and effective system of internal control through forums and seminars.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs.

In a study investigating the effects of internal control deficiencies on firm's risk and cost of equity capital, Ashbaugh, Collins, and Kinney (2007) concluded that firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital and firms that subsequently improve their internal control systems exhibit a decrease in their market-adjusted capital. This study provides evidence that internal control risk matters to investors and those firms reporting strong internal controls or firms that correct prior internal control problems benefit from lower costs of equity capital beyond that predicted by other internal control risk factors.

Findings by Schneider and Church (2008) on the effect of auditor's internal controls opinion on loan decisions suggested that an adverse internal control opinion can underpin the assurance provided by unqualified opinion on financial statements taken as a whole and have a negative effect on lenders assessment. Adverse internal control opinion weakens the importance assigned to the balance sheet and income statement in lending decisions and that it reduces lenders confidence that financial

statements are presented fairly in conformance with the generally accepted accounting principles.

Olumbe (2012) sought 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. The study by Olaoye (2009) on the impact of Internal Control System in banking sector in Nigeria was carried out in order to authenticate the perception that an effective control structure is the most appropriate method for reducing and detecting deception in the banking sector. The findings proved that internal control systems play a significant role in detecting fraud and preventing it in the banking sector of Nigeria. Kanyamon and Sumalee (2011) sought to establish how the effectiveness of internal control creates reliability of financial reporting on Thai listed firms. The findings showed that internal control effectiveness positively influence the financial information reliability. It was concluded that risk management, compliance quality and monitoring adequacy considerably influence internal control effectiveness.

2.6 Research Gap

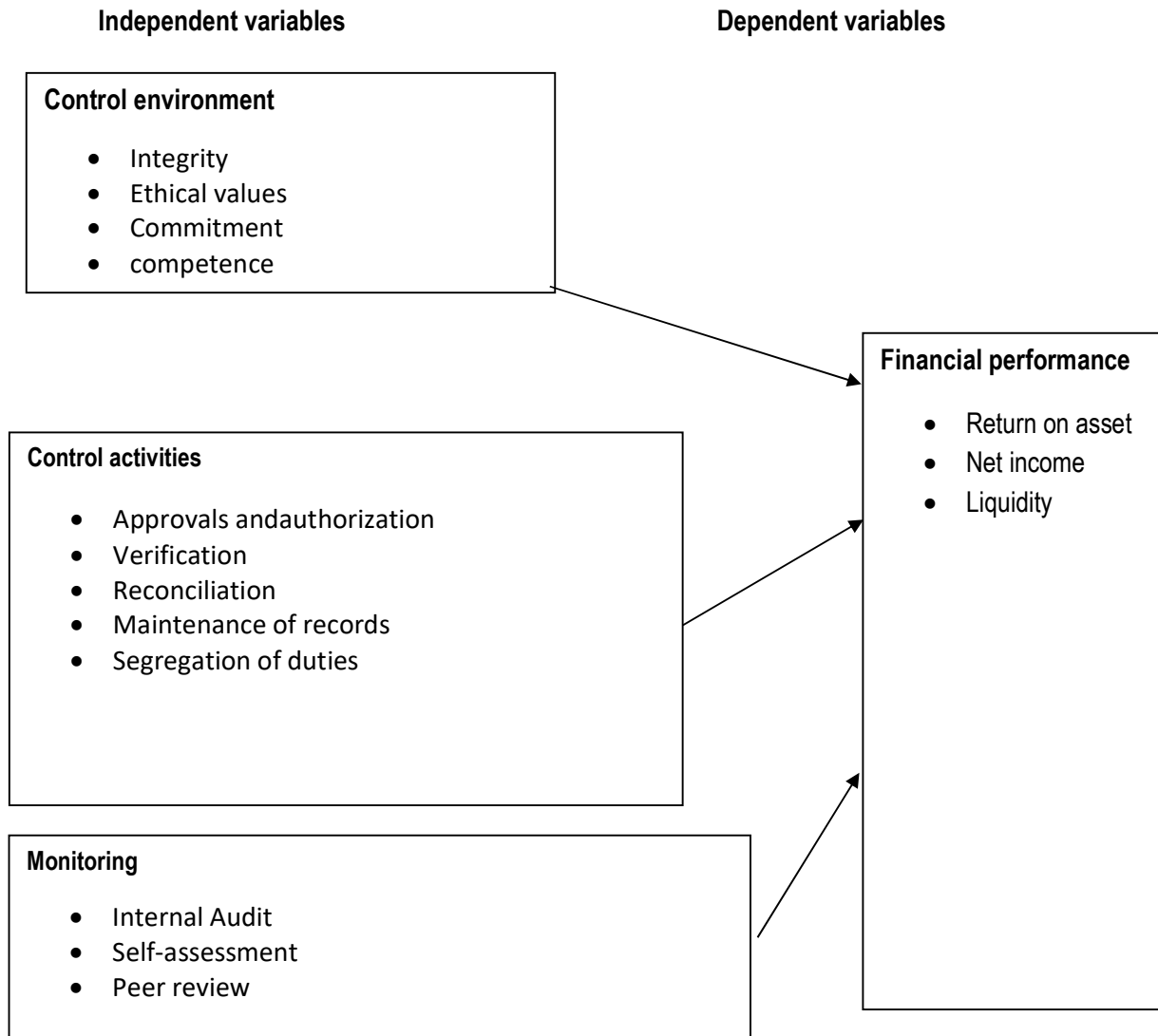
There have been global, regional, and local studies done on how internal controls affect how well a bank does financially. For instance, Huljak's (2020), Singh et al.'s (2021) and Besmir and Aliu's (2022) studies on the effects of internal control systems on the financial performance of the banking sector came to different conclusions. Studies by Nanyukli et al. (2020), Olalekan and Adeyinka (2021) and others looked at how internal control systems affect the financial performance of the banking sector. Internal control systems at Tanzanian banks were the subject of local research by Kingui et al. (2021), which looked at the effects of these controls on financial performance. A research gap exists because few studies have looked at the effect of internal control systems and their influence on the financial performance of Tanzania's

banking sector. The goal of this study is to figure out how internal control systems affect the financial performance of the banking sector at the DSE in Tanzania.

2.7 Conceptual Framework

According to Patrick (2015), the conceptual framework serves as a study's general direction. It is a framework that is based on an existing theory in a particular area of research and is connected to and/or reflects a study's hypothesis. The conceptual framework employed in this inquiry is shown in Figure 2.1. It shows how the three independent variables such as control environment, monitoring and control activities relate to one another. Financial performance was the dependent variable.

Figure 2. 1: Conceptual Framework



Source: Researcher (2023)

Operationalization definitions

From the above framework, the determinants of internal control include control environment, the entity's risk assessment process, Information Communication Technology, control activities and the monitoring of controls. Control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to achieve its strategic objectives, provide reliable financial reporting to internal and

external stakeholders, and to operate its business efficiently. The control environment of the banking institution can embrace integrity and ethical values, the competence of its skilled workforce, and leadership philosophy and operating styles. It also incorporates the way management assigns authority and responsibility, organizes, and develops their subordinates. However, organizational values should not rise above the ethics and integrity of people who create and administer them.

Control Activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risk to achievement of the entity's objectives. It is emphasized that a variety of control activities should be performed to check the accuracy and completeness of information as well as the authorization of transactions. Development of new systems and changes to existing ones should be controlled. Access to programs and data should also be restricted.

Monitoring is an ongoing activity which involves performing procedures periodically and reviewing banks documentation to confirm that all procedures have been performed as required. Monitoring is one of the most important aspects of internal controls in any banking institution used internally, while externally central banks use regulatory and supervisory measures. The tools used in monitoring by many organizations are reconciliations, internal checks and audits to ensure the accuracy of transactions being reported in financial statements.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided the description of the research methodology which included; research design, area of study, research approach, population, sample, sampling techniques, sample size, data collection methods, primary data, secondary data, data analysis technique, reliability and validity of the instruments and ethical considerations

3.2 Research Design

Research design is “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedures” by Kothari (2004). Research design explains how chosen method were applied to answer particular research question. Research design is classified into four categories as follows; Research approach (qualitative and quantitative), according to purpose of the study (exploratory, descriptive, and casual research design), according to time dimension (cross-sectional and longitudinal design) and lastly according to topical scope (case study and survey).

This research adopted descriptive research design. Descriptive research method was employed in this study in order to describe, observe, and document occurring phenomenon where frequency, mean and standard deviation was used for looking statistically significant of the variable construct. For the case of this study data were measured through five-point rickets scale for dependent and independent variables to obtain results and evidence on the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange.

3.3 Area of study

The study concentrated on the licensed commercial banks in Tanzania listed at DES. The research, however, focused on the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange. The reason for this was that the listed

banks are licensed, public in nature, and their data is readily available with the DSE, Bank of Tanzania, and audited published financial reports. The researcher used primary and secondary data gathered from the respondents from the selected listed commercial banks in Tanzania by use of questionnaires and secondary data from published reports, audited financial statements from 2010 to 2010.

3.4 Research Approach

The study uses a mixed research approach where by both quantitative and qualitative were employed. Quantitative approach is characterized by the collection of information which can be analysed numerically while qualitative approach is characterized by the collection of narratives from respondents (Bouma, 2010). Therefore, the use of mixed approach will enable the researcher to achieve the main objective of this study. The advantage of the mixed research approach is that they complement each other thus the researcher was able to associate the information collected from respondents.

3.5 Population, Sample Size and Sampling Techniques

3.5.1 Study Population

A target population is a collection of singular instances or items that have certain common characteristics and for whom the researcher expects to acquire study results Seys et al. (2021). The intended audience was all of the banking companies listed on the Dar es Salaam stock market (DSE). The audited yearly financial statements of the banking businesses listed on the DSE were the source of the ratios utilized in the study's population. In view of this study, the target population included Client Support managers, Head of Corporate and regulatory affairs, chief finance officers, chief business officers, risk managers, credit managers, and Human Resources Managers.

Table 4. 1: Target population

Department	Population Size
Client Support managers, Head of Corporate and regulatory affairs	14
chief finance officers, chief business officers, risk managers, credit managers	18
Human Resources Managers	08
TOTAL	40

Source, HR Data Base, 2023

3.5.2 Sample Size

Sample refers to the number of participants or observations included in a study. It is a representative of the population in which the study findings are generalized (Alvi, 2016). In this study, the sample size was calculated using the Yamane (1967) formula of calculating sample size whereby;

$$n = \frac{N}{1+N(e)^2} \dots\dots\dots (i)$$

Where

n= sample size

N= Population Size

E= desired precision (5-10%)

$$Sample\ Size\ (n) = Population\ Size \frac{N}{1 + N(e)^2}$$

Where N= 40

e= 5%, thus

$$n = \frac{N}{1 + N(e)^2}$$

n= 40

1+40(0.025)

N= 36

3.5. 3 Sampling Techniques

3.5.3.1 Probability Sampling Procedure

Simple random sampling refers to the sampling technique in which every member in the population had an equal chance of being selected (Kothari, 2011). Client Support managers, Head of Corporate and regulatory affairs, chief finance officers, chief business officers, risk managers, credit managers, were selected using this technique and this technique eliminates all element of biasness during selecting a representative sample.

3.5.3.2 Non Probability Sampling Procedure

Purposive sampling was used to get information from the Human Resources Managers

3.6 Data Collection Methods

Primary data was collected using questionnaires and interview

3.6.1 Interview

In this study, a researcher used interview as the method of data collection. This method involve face to face interview between the researcher or interviewer and the interviewees or the respondents. Interview was used to collect information from the respondents that questionnaires could otherwise not be able to collect. Interview guides was prepared by the researcher in order to have consistency in asking questions and the interview guides were used among the human resource managers in the study area.

A pilot study was carried out to determine the validity of the interview guides, where the responses of the subjects was checked against the research objectives.

3.6.2 Questionnaires

Kothari (2004) defines questionnaire as a collection of questions, which are administered to the respondents through the post office or by e-mail and the respondents fill in the questionnaire by themselves in which case the instrument is called a self-administered, or self-completion questionnaire. There are two main types of questions, i.e. open-ended questions and closed ended questions. These are the questions

prepared by the researcher and sent directly to the respondents in the field for the purpose of filling them. These questions are in two types open and closed ended questions.

Questionnaires were preferred in this study due to the fact that they enable the researcher to reach the target group with the minimum cost in terms of time and other sources. A researcher believed that, it is through questionnaires that the respondents were able to provide information at their own prudence or discretion. Hence, it helped to avoid any direct influence contrary to other methods like interviews where the researcher may have direct influence in molding respondents answer. Questionnaires were used among the Client Support managers, Head of Corporate and regulatory affairs, chief finance officers, chief business officers, risk managers, credit managers in the study area.

3.6.2.1 Pre-testing of the Questionnaire

In this study, a researcher pre- tested the instrument before being used. The purpose of this testing were to obtain responses in order to complete research objectives, to tests whether the wording of questions is suited and clear to the understanding of the respondents, to develop suitable procedure for administering the instrument with reference to field conditions and to test whether the content of the instrument is relevant and adequate (Cohen, 2011). Furthermore, this act of pre testing the questionnaires aimed to assess whether the questions are answerable, clear, specific, interconnected and substantial (Baxter, 2008). The whole process enabled the researcher to fine tune the questions, also some ambiguous questions were removed and others re –phrased. After revision, the questionnaires were duplicated ready for use.

A pilot study was carried out to determine the validity of the questionnaire, where the responses of the subjects were checked against the research objectives. The questionnaire pilot tested on fifteen (15) respondents who are part of target population but not in the sample. This represents slightly above 10% of the accessible population that is generally recommended by social researchers (Mugenda & Mugenda, 2012). After pilot testing, the questionnaires were revised to incorporate the feedback that were provided

3.6.3 Secondary Data

Refers to the data that have already been collected by someone else. A researcher used these data just to supplement from other methods of data collection like questionnaires and interviews. Secondary data were obtained from the DSE website, BOT reports, the listed commercial banks website, financial reports, and audited and published financial statements.

3.7 Data Analysis Technique

The study had two types of data to be analysed. The data analyzed using Statistical Package for Social Sciences (SPSS) version 20 descriptively. Quantitative data was analyzed using descriptive statistics such as frequencies, percentages, mean and standard deviation. Quantitative data was entered and coded on SPSS version 20. Qualitative data were analyzed using content analysis. Data were grouped into themes and analysed into categories accordingly. Direct quotations from respondents were used as justification to their answers. In presentation of findings, the researcher showed how the data from descriptive statistics and content analysis relates or not.

3.8 Pilot study

In order to assess the reliability of the instruments of the study (questionnaires) and validity of the data to be collected, a pilot study was conducted prior to the main study. As suggested by Leedy and Ormrod (2006), a pilot study is an excellent way to determine the feasibility of the study. The researcher understands the importance of conducting a pilot study that include gathering field experience, to be aware of the logistics involved and most importantly, to get the overall view of the responses to the survey questions. This in turn enabled the researcher to adjust any observed weaknesses in the data collection tools before the actual survey was conducted

3.8 Validity and Reliability of the Instruments

3.8.1 Validity of the Instruments

Validity is the degree to which a study accurately reflects the specific concept that the instruments intended to measure (Kombo, 2006). The validity of the instruments for data collection in this study was done through

expert review. Experts in research reviewed the data collection instruments and any correction or adjustments were made accordingly in relation to the topic under study. This ensured the validity of data collection tools. Also questionnaires and interview guides were checked by the supervisor and the language used was simple to every respondent involved in this study.

Comments and guidance provided by the research supervisors and other experts in the field of Peace and security Studies was of great and valuable inputs in validating the research instruments.

3.8.2 Reliability of the Instruments

Reliability is the degree to which a test is consistent and stable in measuring whatever it is measuring. Reliability requires the administration of the same test to the same respondents twice (Kothari, 2011). After pilot study, data were tested through SPSS to ensure the internal consistency.

The instruments were pre-tested through a pilot study before the actual data collection to enhance reliability. The research instruments were tested to identify possible problems during the main study and clarify on the instrument and appropriateness of the language. The importance of pre- testing a questionnaire according to Creswel (1999) is to help the researcher understand the meaning of the questions to be respondents and how they arrive at their response. The researcher carried out a pilot testing on 13 employees of Karanga prison. Test re-test method was applied, where the questionnaires were administered to the same respondents twice in the span of two weeks.

3.9 Ethical Consideration

According to Mason (2013), ethical consideration in research is not only essential but also necessary to ensure that participants are treated with dignity and respect during the study. These are moral principles that guide researchers to conduct and report research without deception or intention to harm the participants of the study or members of the society as a whole, whether knowingly or unknowingly. Practicing ethical guidelines while conducting and reporting research is essential to establish the validity of research.

During this study, the following ethical issues were observed; the researcher got data collection permit from the Institute of Accountancy Arusha and government authorities. The researcher ensured that all respondents voluntarily participate in the study and the information collected shall be kept confidentially and were used for the study only. The researcher always informed the respondents prior to data collection sessions.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the research findings accompanied by an analysis of the data collected with respect to the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange. The findings are presented in the form of tables, summaries, frequencies, percentages and pictorial presentation like charts.

4.1 Test of Reliability and Validity

In order to determine if data collected are reliable and valid, researcher conducted validity and reliability test. Cronbach's alpha and KMO were used as a scale to measure reliability and validity of data collected respectively.

4.3.1 Reliability Test

In this study the results from the findings of Cronbach's Alpha was above 0.6 for all items, the coefficient are significant as shown in the table 4.1 below.

According to Leedy (2006) when Cronbach alpha is greater than 0.9 (>0.9) it means that the internal consistency reliability is excellent. When it is greater than 0.8 (>0.8) the reliability is good, while greater than 0.7 is accepted and greater than 0.6 is still acceptable. When it is 0.5 to 0.58 is poor and when it is less than 0.5, internal consistency in unacceptable.

The test yielded the Cronbach's Alpha of .890 for three items of objective one, .933 for four items of objective two and .965 for items of objective three. These results proved that the data collection tools were reliable.

In Cronbach's Alpha, in order to say the data is reliable, the reliability result should be above 0.7.

Table 4. 2: Reliability Statistics

Variable	Cronbach Alpha	No. of items	Internal consistency
Objective one	0.890	3	Acceptable
Objective two	0.933	4	Acceptable
Objective three	0.965	6	Acceptable

Source: Field Data (2023)

4.3.2 Validity Test

Factor Analysis was used to assess the structural validity of the 5- Point Likert scale used. Factor Analysis is a technique used to find out and explore few unrelated and conceptually significant new variables (factors) by bringing together related variables. Before factor analysis method can be employed, KaiserMeyer- Oklin (KMO) test should be conducted to test the sufficiency and adequacy of the data obtained and Barlett test should be conducted to test the normality of the distribution in the population (Pallant, 2005). The KMO tests whether partial correlations are small and whether the distribution is sufficient for factor analysis. The KMO value ranges from 0-1, it is interpreted as normal between 0.5 and 0.7, as good between 0.7 and 0.8, as very good between 0.8 and 0.9 and as perfect when it is over 0.9 (Field, 2005). After analyzing data collected on SPSS v.20 the result of KMO was 0.843. This implies that the results of this study were valid.

Table 4. 3: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.843
Bartlett's Test of Sphericity	Approx. Chi-Square	1.169
	Df	136
	Sig.	.000

Source: Field Data 2023

4.4 Findings for Research Objectives

4.4.1 The effect of Monitoring of Controls on financial Performance of ~~omni~~ banks listed at DSE

Under this research objective, the researcher sought to determine the effect of Monitoring of Controls on financial Performance of ~~omni~~ banks listed at DSE. Respondents were to respond by ticking most appropriate option ranging from 1=strongly disagree 2=disagree 3=Undecided 4=agree 5=strongly agree. Respondents indicated their perception toward three items in the questionnaire as shown below. Scale of mean score interpretation was as follows: Based on the mean values, mean score of 1 to 1.8 represent Strongly Disagree, 1.81 To 2.60 represent disagree, 2.61 To 3.40 represent undecided, 3.41 To 4.20 represent agree and 4.21 To 5.00 represent strongly agree.

Table 4. 4: the effect of Monitoring of Controls on financial Performance of commercial banks listed at DSE

Statements	N	Mean	Std. Dev	Interpretation
Integrity	36	2.64	1.479	Undecided
Ethical values	36	2.91	1.062	Undecided
Commitment	36	3.98	1.097	Agree
competence	36	3.82	1.211	Agree

Source: Field Data (2023)

So as to understand the whether monitoring of controls have an effect on financial Performance of commercial banks listed at DSE, the respondents gave views to the following statements such as integrity, competence, commitment and ethical values. As reflected in Table 4.3, mean score differed from one item to another. This shows that respondents had different opinion about whether monitoring of controls have an effect on financial Performance of commercial banks listed at DSE. Specifically, they agree on two items that Commitment and competence are the sub variable used to measure monitoring controls on financial Performance of commercial banks listed at DSE, with the mean value (M=3.98 and S. D= 0.097) and (M=3.82 and S. D=0.211). It was discovered that other respondents were neutral on whether integrity and ethical values as the monitoring controls on financial Performance of commercial banks listed at DSE with the mean value (M=2.64 and S. D= 0.479, M=2.91 and S. D= 0.064). The study findings found out that the greatest percentage of the respondents agreed that monitoring has helped in assessing the quality of performance of the bank over time and that the internal reviews of implementation of internal controls in departments are conducted periodically. A greater percentage of the respondents also agreed that there are independent process checks and evaluations of controls activities on an ongoing basis. A greater percentage of the respondents agree that the management has assigned responsibilities for the timely review of the audit reports and resolution of any non- compliance items noted in those audit report and also agreed that the budgets and work plans are reviewed against

Actual expenditure.

4.4 The effect of Control Environment on financial Performance of commercial banks listed at DSE

The second research objective of this study was to examine the effect of Control Environment on financial Performance of commercial banks listed at DSE. Using five –point Likert scale, the study thought to know respondents rate of agreements on various statements relating to the effect of Control Environment on financial Performance of commercial banks listed at DSE.

Respondents were to respond by ticking most appropriate option ranging from 1= Strongly Disagree, 2 = Disagree, 3 = Undecided, 4= Agree, 5= Strongly Agree. Scale of mean score interpretation was as follows: Respondents had to respond to five items in the questionnaire under this section. Based on the mean values, mean score of 1 to 1.8 represent Strongly Disagree, 1.81 To 2.60 represent disagree, 2.61 To 3.40 represent undecided, 3.41 To 4.20 represent agree and 4.21 To 5.00 represent strongly agree. The results of analysis are shown in Table 4.5

Table 4. 5: The effect of Control Environment on financial Performance of commercial banks listed at DSE

Statements	N	Mean	Std. Dev	Interpretation
Approvals and authorization	36	2.58	.988	Disagree
Verification	36	2.84	.796	Undecided
Reconciliation	36	3.89	1.283	Agree
Maintenance of records	36	3.73	1.515	Agree
Segregation of duties	36	3.22	1.106	Undecided

Source: Field Data (2023)

As seen in table 4.5, there were varying views on the effect of control environment on financial Performance of commercial banks listed at DSE. Respondents agreed on two items from the questionnaires. Specifically, they agreed that reconciliation and maintenance of records as the effect of control environment on financial Performance of commercial banks listed at DSE with the mean score (M=3.89 and S. D= 0.283, M=3.73 and S. D= 0.515). Furthermore, other respondents were neutral on whether Segregation of duties and verification as the effect of control environment on financial Performance of commercial banks listed at DSE with the mean score (M=2.84 and S. D= 0.796, M=3.22 and S. D= 0.106). Other respondents disagree with the statement that approvals and authorization as on the effect of control environment on financial Performance of commercial banks listed at DSE with the means core (M=2.84 and S. D= 0.796).

The study findings as presented in Table 4.5 shows that majority of the respondents agreed to a great extent with the following aspects; that the management is committed to the operation of the bank as well as honest and fair dealings with all stakeholders for the benefit of the organization. A significant majority of respondents also have the perception that the management is committed to the operation of the bank and that reporting hierarchy between employees and supervisors is well defined and the bank policies and procedures for authorizations are established at an adequately high level. More than half of the population had the perception that integrity has an effect on bank collections and payments operations in the bank. A moderate population agreed that ethical values are upheld in receivables collection and that there are formalized policies and procedures for all major operations of the bank.

Further, a significant majority of the respondents agreed that Organizational structure does adequately reflect chain of command and a current job description to define the duties and responsibilities of the bank employees exists. Therefore, we can deduce that the banks had control environment and the study further tested the effect of control environment on the financial performance in listed commercial banks in DSE

4.5 The effect of Control Activities on financial Performance of commercial banks listed at DSE

The third research objective of this study was to examine the effect of Control Activities on financial Performance of commercial banks listed at DSE. Using five –point likert scale, the study thought to know respondents rate of agreements on various statements relating to the effect of Control Activities on financial Performance of commercial banks listed at DSE.

Respondents responded by ticking most appropriate option ranging from 1= Strongly Disagree, 2 = Disagree, 3 = Undecided, 4= Agree, 5= Strongly Agree. Scale of mean score interpretation was as follows: Respondents had to respond to five items in the questionnaire under this section. The results of analysis are shown in Table 4.8. Based on the mean values, mean score of 1 to 1.8 represent Strongly Disagree, 1.81 To 2.60 represent disagree, 2.61 To 3.40 represent undecided, 3.41 To 4.20 represent agree and 4.21 To 5.00 represent strongly agree.

Table 4. 6: The effect of Control Activities on financial Performance of commercial banks listed at DSE

Statements	N	Mean	Std. Dev	Interpretation
Internal Audit	36	3.01	1.122	Undecided
Self-assessment	36	3.49	1.420	Agree
Peer review	36	3.66	1.184	Agree

Source: Field Data (2023)

Table 4.6 presents findings about the effect of control activities on financial Performance of commercial banks listed at DSE. Respondents agree on two items that self-assessment and Peer review were the effect of control activities on financial Performance of commercial banks listed at DSE with the mean value (M=3.49 and S.D= 0.420, M=3.66 and S. D= 0.184). Other respondents

who filled the same questionnaires were neutral on whether Internal Audit had an effect of control activities on financial Performance of commercialbanks commercial banks listed at DSE ($M=3.01$ and $S.D= 0.122$).

Results from the study reveal that a great of the respondents agreed to a great extent that individual independent of financial record keeping promptly investigate disputes with amounts that are reported by clients. A great percentage of the respondents also believe that there is segregation of responsibilities on collections, general accounting, and general ledger posting of records. A great population of the respondents agree that there is establishment of planning and reporting systems to identify variances from planned budget and operating goals, and communicate any variances to the appropriate level of management within the bank for investigation and timely corrective action(s). A great percentage of the respondents agree that changes to the assessed amounts require the approval of an authorized individual.

A great percentage of the respondents agreed that proper documentation of all transactions is maintained at the bank. A significant majority of respondents agree that there is a clearly written budget and other financial and operating goals that have been communicated throughout the bank and are actively monitored. An average percentage of the respondents agree that procedures exist to prevent the interception or alteration by un-authorized persons by verifying, approving, and authorizing transactions before posting. A significant majority of the respondents agree that accounting records should be limited to employees with designated responsibility for such records. A significant majority of the respondents also agreed that specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures.

Nevertheless, only about an average of the respondents agreed that reconciliation is done monthly to reconcile separate records and properly resolve any differences. Therefore, it can be deduced that the banks carried out control activities and the researcher can as well go further to test their effect on financial performance on the listed commercial banks.

Pearson Correlations Matrix

The researcher also performed the correlation analysis in order to observe the degree of association among the variables. Table below provide the degree to which the variables are related. A correlation analysis was carried out on the study variables to establish whether there existed any significant relationship between the dependent variable and the independent variables using 0.05 level of significance. The variables were analyzed using the Pearson's product method correlating the Dependent Variable (DV); financial performance to all Independent Variables (effect of Monitoring of Controls, effect of Control Environment and effect of Control Activities).

Correlation Analysis

Table 4.7 presents a correlation analysis of four variables: financial performance, effect of Monitoring of Controls, effect of Control Environment and effect of Control Activities. The table provides Pearson correlation coefficients, which measure the strength and direction of the linear relationship between each pair of variables, and their associated significance levels (Sig).

The correlation between financial performance and effect of Monitoring of Controls shown to be a moderate positive relationship (0.531). The Sig (2-tailed) value of 0.000 indicates that this relationship is statistically significant at a very low p-value

There is a strong positive correlation (0.885) between the financial performance and effect of Control Environment. The Sig (2-tailed) value of 0.001 suggests that this relationship is statistically significant, further indicating the effect of Control Environment had an impact on financial performance.

There is a moderate positive correlation (0.684) between effect of Monitoring of Controls and effect of Control Environment. This correlation is also statistically significant (Sig = 0.001), highlighting the Monitoring of Controls and effect of Control Environment.

There is a moderate positive correlation (0.661) between effect of Control Activities and effect of Control Environment. The correlation is statistically significant with a Sig (2-tailed) value of 0.000. This suggests

that when effect of Control Activities and effect of Control Environment tend to impact on financial performance.

The correlation analysis in Table 4.7 reveals that all the variables (financial performance, effect of Monitoring of Controls, effect of Control Environment and effect of Control Activities) are positively correlated with each other. The strength of the correlations varies from moderate to strong, and all correlations are statistically significant, indicating that these factors are interconnected and play important roles.

Table 4. 7: Correlation Analysis

		financial performanc e	effect of Monitoring of Controls	effect of Control Environment	effect of Control Activities
financial performance	Pearson Correlation	1	0.531	0.885	0.769
	Sig(2-tailed)		0.000	0.001	0.000
effect of Monitoring of Controls	Pearson Correlation	0.531	1	0.684	0.422
	Sig(2-tailed)	0.000		0.001	0.023
effect of Control Environment	Pearson Correlation	0.885	0.684	1	0.661
	Sig(2-tailed)	0.001	0.001		0.000
effect of Control Activities	Pearson Correlation	0.769	0.422	0.661	1
	Sig(2-tailed)	0.000	0.023	0.000	

4.5 Discussions of the findings

4.6 4.2.1 The effect of Monitoring of Controls on financial Performance of commercial banks listed at DSE

A study by Channar, et al, (2015) on internal control effectiveness and its correlation with financial performance in Pakistan indicated that internal control system effectiveness is strongest in private banks and weakest in Islamic banks, although the difference is not statistically large, but slight variation exists. Furthermore, private banks were more likely to perform better than public banks. A study by Barra (2010), was done to determine if internal controls and the penalties had an effect on employees' attempts to act fraudulently. The researcher used analytical method and focused on control activities and monitoring. Collection of data was done by the scholar from managerial and non- managerial employees. The scholar's findings revealed that availability of control activities including separation of duties led to high cost of engaging in fraudulent behaviors on the part of employees. Ejoh and Ejom (2014), carried out a research to check if internal control activities had impact on Nigerian tertiary institutions' financial Performance. The scholars measured the performance using indicators including accountability, liquidity and reporting. The primary data and secondary data sources were used by the scholars to collect data which was used in the study. Primary data was collected by the scholars through structured questionnaires and interviews. Secondary data on the other hand was collected by the scholars from College publications, text books and journals. Presentation of data was achieved by the scholars with the help of tables and percentages. Furthermore, findings revealed that financial information which was valuable could be accessed by an individual staff without the permission given by the other staff. Generally, their findings as per the study indicated that Nigerian tertiary institutions' financial Performance was not significantly related to internal controls

Ejoh and Ejom (2014) undertook a research on internal control system and financial performance in Nigeria, where findings revealed a dimension of internal control system and financial performance in Nigeria were found to be positively related to performance measured in terms of liquidity, accountability and reporting. Nyakundi et al. (2014) analysed the internal control system and financial performance in Kenya. The research reveals existence of a positive correlation between internal control system and the growth rate for

earning. Furthermore, the study evidenced the level of skills, the degree of awareness of the staff within internal control system is also correlated with the probability and the level of awareness in internal control system to the increased income ($r=0.988$).

4.2.2 The effect of Control Activities on financial Performance of commercial banks commercial banks

A study carried out by Ayagre et al. (2014) on the elements of internal control system and its effect on financial performance of commercial banks, indicate that, tough controls system was established where control environment and monitoring activities are felt to be the main elements control system of banks in Ghana and these two elements have been extremely evidenced by the respondent's with the mean of 4.72 and 4.66 respectively. Uwaoma (2015) explored the role of internal control system on financial performance using a case of production in Nigeria. Results demonstrated a positive correlation between internal control system and effective utilization of organization funds with a positive correlation with 0.9345. Furthermore, for R squared of 0.87330 demonstrated that 87.33% of the total adjustment in financial management are disseminated to appropriate money in the bank

Jones (2008) compared internal control, accountability and corporate governance in medieval and modern Britain. He used a modern referential framework (control 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. He 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.

4.2.3 The effect of Control Environment on financial Performance of commercial banks

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 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. 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 the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Moberg and Romar (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. Goh (2009) studied 208 firms on audit committees, boards of directors, and remediation of material weaknesses in internal control. He 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). He 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.

Ewa and Udoayang (2012) sought 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 analysed using percentages and ratios. The study found 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.

Mawanda (2008) studied on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study sought to establish the relationship between internal control systems and financial performance in an 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 sought to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance.

Amudo and Inanga (2009) a 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. 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.

Kakucha (2009) evaluated the level of effectiveness of internal controls of enterprises operating in Nairobi. 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 risk analysis, and lack of proper flow of information. The study also found 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 study recommended that there was need to enlighten the operators of small business of what constitutes an efficient and effective system of internal control through forums and seminars.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs.

In a study investigating the effects of internal control deficiencies on firms risk and cost of equity capital, Ashbaugh, Collins, and Kinney (2007) concluded that firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital and firms that subsequently improve their internal control systems exhibit a decrease in their market-adjusted capital. This study provides evidence that internal control risk matters to investors and those firms reporting strong internal controls or firms that correct prior internal control problems benefit from lower costs of equity capital beyond that predicted by other internal control risk factors.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Three sections were involved in this chapter namely conclusions and recommendations originated from the study findings and research objectives.

5.2 Conclusion of the study

The study sought to establish the effect of control environment, control activities, on the financial performance of commercial banks listed at DSE in Tanzania. Study findings reveal that there was a not significant effect of control environment on the financial performance of commercial banks listed at DSE in Tanzania. The study findings do not agree with the view of Armstrong (2003) that control environment constitutes the foundation for building an effective internal control system.

The study established that some management of these banks failed to act with great integrity while executing their roles. This claim was cited by some of the respondents. The findings did not conform to the conclusion made by Rae and Subramaniam (2006) that organizational values have to remain within the confines of integrity and ethics of individual creating and administering them.

Nonetheless, reporting hierarchy between subordinate employees and their supervisors was clearly defined, as agreed by a number of respondents. Employees were aware of their duties. Although major policies and procedures were communicated to the employees, they occasionally became sensational that they were being observed. The control environment gives procedures, policies, structures, and discipline to achieve primary goals of the system of internal control. The findings confirmed that commercial banks listed at the Dar es salaam exchange have sound policies and procedures, which is a clear indication of the existence of a sound control environment.

The study further found out that there was a significant effect between control activities and the financial performance of listed commercial banks a finding that differs with the assertion by Fama (1980) that control activities incorporate policies and procedures for carrying out management directives. They make sure that actions taken help in mitigating risk issues and achieving organizational objectives. This is also in disagreement with findings by Ramos (2004) that different control activities need to be performed for accuracy check and completeness of information while authorizing transactions.

The study further found that monitoring of controls had a significant effect on financial performance on the listed commercial banks an aspect that confirms a conclusion made by Khrawish (2011) that monitoring is an on-going activity, involving conducting procedures periodically and reviewing banks documentation to confirm that all procedures were performed as required and it has a direct impact on the financial performance of a firm. Majority of the respondents agreed that internal reviews of implementation of internal controls in departments were periodically conducted, while some respondents cited budgets and work plans were reviewed against actual expenditure.

Monitoring helped in assessing the quality of performance of the banks over time. In order to support this claim, majority respondents agreed the banks management assigned responsibilities for the timely review of the audit reports and resolution of any non-compliance items noted in the audit reports. Monitoring within the banks was effective in ensuring that daily operations were compliant with the system of internal control. The study results revealed that most commercial banks listed at the Dar es salaam Securities Exchange have independent processes that conduct periodic reviews that play crucial role in monitoring organizational activities, and thereby showing a clear indication of existence of sound internal control systems. The study findings conform to the results found by Ramos (2004) that independent processes and periodic audit reviews have a positive effect on performance of firms, in terms of monitoring.

5.4 Recommendations of the Study

- (i) Control environment has a positive significant relationship with financial performance. The commercial banks should therefore ensure suitable environment to secure their operational activities. The managers of the commercial banks should put in place effective and efficient security networks to reduce on various fraudulent activities.
- (ii) Commercial banks listed at the Dar es salaam Securities Exchange should re-evaluate their internal controls systems and strengthen their weak areas so as to improve their financial performance. The results obtained from this study may guide building strong internal control systems, specifically control environment, control activities, information and communication technology, and monitoring. Hence, these determinants of internal control systems, the study provides a foundation towards improving financial performance and efficiency
- (iii) There is a need for management to fully understanding their obligations and take necessary actions in ensuring financial performance of their commercial banks, Management in the Banking industry must increase awareness of employees in order to change their core beliefs and help to ensure efficient and effective operations to achieve the objectives
- (iv) Commercial banks should implement efficient control activities to guide their operations. The banks' management specifically the human resource management should examine the level of employee integrity in allocating them responsibilities especially employees who handle confidential information.
- (v) commercial banks should ensure that their monitoring strategies are geared towards effective operations and achievement of organization goals. The management of commercial banks should ensure that there are policies in place guiding the banks' dealing with threats to the banks' operations.
- (vi) Commercial banks should transparently report on the structure and performance of their governance, risk management and internal control systems in their various reports to internal and external stake- holders for example through their periodic accountability reports or on the organization's website

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APPENDICES

Questionnaires for Client Support managers, Head of Corporate and regulatory affairs, chief finance officers, chief business officers, risk managers, credit managers

Dear Madam/ Sir,

My name is **Lilian Kwatilah**, a student pursuing a master degree in MBA as part of the requirements for the award of Master degree at IAA. The study will be based on the impact of internal control systems on financial performance in Tanzania, a Case of Commercial Banks Listed at Dar es Salaam Stock Exchange. Therefore, I am looking for your assistance to fill the questionnaires as attached below. The research results will be used for academic purposes only and were treated with maximum confidentiality.

Instructions:

1. *Indicates the most appropriate answer by ticking (√) in the bracket.*
2. *Each question should have only one tick (√) for your chosen answer, unless stated.*
3. *Where the space is provided, write your answer in it.*
4. *Please use a pen to answer this questionnaire.*

Section A: Control Environment

8.		5	4	3	2	1
i)	There are formalized policies and procedures for all major operations of the bank.					
ii)	Policies and procedures for authorizations are established at an adequately high level					
iii)	Organizational structure does adequately reflect chain of command					
iv)	A current job description to define the duties and responsibilities of the bank employees exists.					
v)	Ethical values are upheld in receivables collection					
vi)	Integrity has an effect on bank collections and payments operations					
vii)	There is honest and fair dealings with all stakeholders for the benefit of the organization					
viii)	Management is committed to the operation of the bank					
ix)	Management acts with great degree of integrity in execution of their roles					
x)	Reporting hierarchy between employees and supervisors is well defined.					

Section B: Control Activities

13.		5	4	3	2	1
i)	There is segregation of responsibilities on collections, general accounting, and general ledger posting of records.					
ii)	Individual independent of financial record keeping promptly investigate disputes with amounts that are reported by clients.					
iii)	Accounting records are limited to employees with designated responsibility for such records					
iv)	Changes to the assessed amounts require the approval of an authorized individual					
v)	Specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures					
vi)	Procedures exist to prevent the interception or alteration by un-					
	authorized persons by verifying, approving, and authorizing transactions before posting					
vii)	Reconciliation is done monthly to reconcile separate records and properly resolve any differences					
viii)	Proper documentation of all transactions is maintained at the bank					
ix)	There is clearly written budget and other financial and operating goals that have been communicated throughout the bank and are actively monitored.					
x)	There is establishment of planning and reporting systems to identify variances from planned budget and operating goals, and communicate any variances to the appropriate level of management within the bank for investigation and timely corrective action(s).					

14. In your opinion, do you think the bank has established, distributed, and maintained certain policies for the bank staff to follow in performing their duties and functions?

Explain.....
.....

15. Does the bank track the location and use of all materials and assets at all times?

Yes No

16. Does the bank limits access to its assets to authorized personnel who require these assets to perform their assigned duties

Yes No

SECTION D: Monitoring

21.		5	4	3	2	1
i)	There are independent process checks and evaluations of controls activities on an ongoing basis.					
ii)	Internal reviews of implementation of internal controls in departments are conducted periodically.					
iii)	Budgets and work plans are reviewed against Actual expenditure					
iv)	Monitoring has helped in assessing the quality of performance of the bank over time					
v)	Management has assigned responsibilities for the timely review of the audit reports and resolution of any non-compliance items noted in those audit reports					

22. To whom does the internal audit report?

State.....

23. Who is principally responsible for ensuring that internal control measures are adhered to?

State.....

24. How often does the internal audit visit your department in one year?

Once Twice Quarterly

Other (specify).....

25. How frequent do you prepare the bank reports to the CBK?

Monthly Quarterly Annually All of the Above

26. Is monitoring within the bank effective in ensuring that daily operations are in compliance with the system of internal control?

Yes No

27. Does monitoring adequately identify changes in the internal or external environment that affect risk and opportunities?

Yes No

Time scale and Budget

Duration and Schedule of Activities

S/NO	ACTIVITY	Milestone per month,2023				
		JUNE	JULY	AUG'	SEPT'	OCTOB'
1.	Proposal design	■				
2.	Tools designing and pilot study		■			
3.	Data collection and analysis			■		
4.	Draft report writing and submission			■	■	
5.	Final report presentation and submission					■

Estimated Budget

SN	Activity	Unit	Quantity	Unit Cost	Total cost
1	Stationery	Lump sum	Lumpsum	Lumpsum	70,000
2	Meals	TZS	5	60000	300,000
	Collection of Data				
3	Transport	Km	1200	100	120,000
4	Payment for enumerators	TZS	5	30000	150,000
	Data Analysis				
5	Coding and entering	TZS	100	1000	100,000
6	Data Analysis	TZS	110	5000	550,000
	Report				
7	Typing, printing, and binding	TZS	200	1000	200,000
	Report presentation				
8	Binding	Lumpsum	Lumpsum	300,000	300,000
Grand total					1,790,000

