INTERNAL CONTROLS AND LOAN PERFORMANCE OF COMMERCIAL BANKS IN UGANDA A CASE OF FINANCE TRUST BANK PALLISA BRANCH

BY

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DECLARATION

I ADONG JULIAN do consent that this research report is my own work and it has never been submitted for examination in this university for academic qualification.

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APPROVAL

This report is submitted to Busitema University as a partial fulfillment for the award of Bachelors of Business Administration in Accounting and Finance with my approval as the academic supervisor.

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DEDICATION

This work is dedicated to the Almighty God for His incessant blessings without which it is impossible to ensure the report submission a reality, to my dear husband Mr. Owen Kaule, parents Mr. Aisia Jacob Max and Mrs. Aisia Eunice for their moral support, encouragement and understanding. To all my beautiful baby Kaule Haven, siblings, friends, course mates and lecturers.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

FTB	Finance Trust Bank
ROA	Return on Asset
ROE	Return on Equity
F/Y	Financial Year
SPSS	Statistical packages for social sciences
NPL	Non Performing Loans
OECD	Organization for economic co-operation and development

ABSTRACT

The purpose of this research was to assess the effect of internal controls on loan performance in commercial banks in Uganda. The methodology used in this research paper was a quantitative and cross sectional research. A sample size of 25 employees of Finance Trust Bank, Pallisa Branch was selected. The findings of the study were based on correlation analysis and regression analysis. Firstly the findings support that internal controls have a positive significant effect on loan performance, further the study established that information & communication had a statistically positive effect on loan performance, the study also revealed that control environment had a statistically positive impact on loan performance. Finally, the study revealed that risk management has effect on the loan performance. The highest direct effect on loan performance comes from information communication variables. The researcher therefore concludes that in order to improve loan performance, commercial banks need to embrace information and communication, control environment and risk management. The researcher recommends commercial banks to embrace information & communication by providing a better means through which all responsible persons can have access to all the required information and easily receive communication, they should also understand their control environment by having devoted and capable employees who adhere to the moral standards and integrity of the organization and assess and evaluate risks that may arise in all their activities.

CHAPTER ONE:

INTRODUCTION

1.0 Introduction

This chapter covers the background of the study, statement of problem, purpose of the study, objectives, scope of the study, significance, conceptual framework and definition of the terms.

1.1 Background of the study

Commercial banks are the dominant financial institutions in most developing and emerging economies and well-functioning commercial banks accelerate the rate of economic growth while poorly functioning commercial banks are an impediment to economic progress (Richard, 2021). Loans are part of the assets of a commercial institution since they are meant to earn interest in the course of time (Waweru & Kalani, 2023). This, however, is not always the case. Some loans do not perform as expected and are termed non-performing loans (NPLs).

Loan performance is of concern globally to all stakeholders of banks and microfinances such as shareholders, directors, managers, employees etc.

Globally, European Systemic Risk Board, (2017) indicates that the gross carrying amount of NPLs in the EU at the end of 2016 amounted to around €1.0 trillion, with a net carrying amount of €560 billion. The largest stock of NPLs is held by Italian banks, circa €300 billion in gross terms. They are followed by French, Spanish and Greek banks. Gross NPLs amounted to 5.1% of gross loans in the EU at the end of 2016. The aggregate NPL ratio in the EU remains high by historical standards, and is still much higher in the EU than in other jurisdictions: in 2016 the NPL ratio amounted to 1.5% for the United States and Japan. Much of the increase in the NPL ratios in the EU countries took place between 2010 and 2014, but the NPL ratios have begun to decrease since 2014.

In the Asian continent, as per Rosenkranz and Lee (2019) in the 2 decades since the 1997/98 Asian financial crisis (AFC), nonperforming loan (NPL) ratios in Asia have generally been trending downward. Annual NPL ratios were less than 5% for most economies during the post-AFC era, a far cry from the zenith when bad loans as a share of the total outstanding hit as much as 49% for Bangladesh, Indonesia, and Thailand; 29% for the People's Republic of China (PRC); and more than 10% for the Kyrgyz Republic, India, Malaysia, Pakistan, and the Philippines.

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