Internal Control Systems and Performance of Microfinance Institutions in Uganda. A Case Study of Kabale Municipality

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Abstract

This study investigated the relationship between internal control systems and performance of microfinance institutions in Kabale Municipality, South Western Uganda. The study was guided by specific objectives, that is, to examine the effect of control environment on performance of microfinance institutions, examine the effect of risk assessment on performance of microfinance institutions; investigate the effect of monitoring activities on performance of microfinance institutions and to assess the effect of communication on performance of microfinance institutions in Kabale Municipality. The study employed a cross section survey design to explore information from different stakeholders in selected microfinance institutions at a given point in time. A sample size of 100 respondents was considered for the study, selected by simple random sampling and purposive sampling techniques. Data was collected through primary sources using structured questionnaires and interviews. Statistical Package for social Scientists, SPSS, Ver. 23 was used to analyze the data, and findings were presented in tables and charts. Findings revealed that risk assessment significantly affect performance of microfinance institutions in Kabale Municipality. However, control environment, monitoring activities and communication had a significant effect on performance of microfinance institutions. It was concluded that while all elements of the internal control system are implemented complementary, the role of risk assessment was profound for improvements of performance levels in microfinance institutions, than other components. In due regard, the study recommends that risk assessment be reinforced so as to continuously performance in microfinance institutions in Kabale Municipality

1. Introduction

World over, internal controls have been seen to be established in organizations to control the organization in as far as financial performance is concerned. Historically, internal controls in organizations have existed from ancient times. In Hellenistic Egypt, there was a dual administration with a set of bureaucrats charged with collecting taxes and another charged with supervision for purposes of internal controls.

The AMF Working Group (2017) looked at the components of internal controls as being control activities, control environment, risk assessment, information and communication and monitoring and evaluation. Whereas internal controls are thought to be accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Whereas projects are crucial in successful economies, in recent years in Uganda, project failures have become a common practice due to poor internal control systems adopted. However, empirical research demonstrated that pressure for controls from a multitude of external and internal stakeholders is on an increase to cause adequate service delivery.

Control Theory: The control theory has been described as an interdisciplinary branch of engineering and

mathematics that deals with dynamic systems with inputs. The external input to the system is the reference. When one or more output variables of a system need to follow a certain reference over time, controller manipulates to a system to obtain the desired effect on output of the system (Vijayakumar & Nagaraja,2012).

Agency Theory. In management and economics, the agency theory explains various relationships and areas of self interest in institutions.

Stewardship Theory: According to Heentigala (2019), stewardship theory postulated that a steward protects and maximizes shareholder's wealth through firm performance, because by so doing, the stewards' utility functions are maximized. A steward compares with the agent in the agency theory, where he is entrusted with the running of business on behalf of the owner.

Statement of the problem

Internal control systems are very vital to all organizations either public or private because they enhance quality-of-service delivery (Magala, 2018). The government of Uganda through different publications and parliamentary sittings has continued to urge all business ventures to adapt internal control system in order to attain their set goals and objectives (Parliament of Uganda, 2019). The efficacy of internal control system on financial performance is paramount in every organization. This was because internal controls ensure prevention and detection of errors and frauds. The firm's economic assets generate income which abets growth and sustainability. It was imperative for MFIs to establish water tight controls if at all it would achieve improved financial performance.

Despite the above, microfinance institutions have been seen with resulting incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery resulting into less revenue generated, collusion, fraud, embezzlement by employees, lack of transparency of all forms and poor accountability of cash and all business assets which has greatly led to closure of some microfinance institutions in Uganda (Henry, 2017).

Internal controls check governance of MFIs to achieve profitability (Kalyango, 2015) growth and development. Microfinance Institutions are prone to risks that are life threatening to the existence and sustainability. Operational and strategic risks are of non-financial character and result mainly from human error, frauds, system failure, through regulatory environment, however when they materialize, they lead to financial losses for the organization. A number of MFI's face collapse or near collapse if they are unable to set up internal controls. For example, Bayport and B-blue MFIs have collapsed (closed) due to failure to embrace internal control systems in their day-to-day operations. Therefore, this study explored the relationship between internal control systems and performance of microfinance institutions operating in Kabale Municipality.

Specific Objectives

To find out the effect of control environment on performance of microfinance institutions in Kabale Municipality.

To examine the effect of risk assessment on performance of microfinance institutions in Kabale Municipality.

To investigate the effect of monitoring activities on performance of microfinance institutions in Kabale Municipality.

To assess the effect of communication on performance of microfinance institutions in Kabale Municipality.

Scope

The study explored the relationship between internal control systems and performance of microfinance institutions of Kabale Municipality. The study was carried in selected microfinance institutions in Kabale Municipality located in Central Division, Kabale district in South Western Uganda. This research study considered an operation period of 10 years between 2011 and 2021.
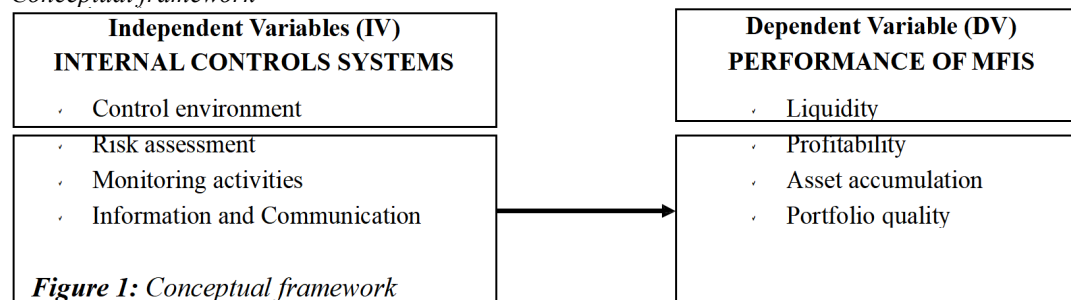
Conceptual framework

Independent Variables (IV) INTERNAL CONTROLS SYSTEMS	Dependent Variable (DV) PERFORMANCE OF MFIS
· Control environment	· Liquidity
· Risk assessment · Monitoring activities · Information and Communication	· Profitability · Asset accumulation · Portfolio quality

Figure 1: Conceptual framework

Figure 1: Conceptual framework

1.1 Literature Review

Effect of control environment on performance of microfinance institutions

According to Cielens (2010), control environment helps to establish a workable bookkeeping and accounting system that ensures all transactions are recorded and accurately processed in the appropriate books of account. Similarly, Eferakeya (2014) noted that controls activities help in unearthing irregularities which contributes to managerial effectiveness. Chukwu (2012) later established that internal control system supports financial management, especially through proper control environment and effective se gregation of duties and checks and balances over the organization's funds and assets (Bukenya & Kinatta, 2012). However, these studies especially Bukenya & Kinatta (2012), did not specifically address the effect of internal control environment on financial performance. Indeed, the scope of Kabale Municipal Council was not explored.

How risk assessment affect performance of microfinance institutions

Schulze et al (2013) revealed risk assessment is a key in identifying, evaluating and mitigating risks. Ntongo (2012) and Magara (2013) also revealed that risk assessment ensures that limited resources of institutions are properly used for credible financial performance. Relatedly, studies on performance further show that risk assessment is key for reducing risks, controlling failure and harnessing performance. More so, Verstegen (2010) noted that risk assessment is key for defining audit objectives; audit scope, methodology, audit examination programme, audit budget and/or resources, all of which influence performance of MFIs. However, these studies did not give the scope of the public sector firms especially in a Ugandan setting. Similarly, Magara (2013) revealed that risk assessment is an integrated, strategic assessment of organisation-wide risk, which shapes MFI performance, by controlling uncertainties and meeting its audit activities. Besides that, these studies did not show how much risk assessment affects performance of MFIs, an aspect this study further explored.

The effect of monitoring on performance of microfinance institutions

According to John and Morris (2011), monitoring describes a relationship between monitoring effectiveness and performance of MFIs especially in its role of enhancing skills of junior officers, and monitoring the quality of services offered by the junior person. To John and Morris (2011), monitoring is a gate keeper to financial accountability and professionalism of financial controllers. Relatedly, Hayes (2012), monitoring improves interpersonal relationship between employees and supervision which increases commitment at work hence increased productivity. Additionally, through proper monitoring and supervision within the ICS, clear demarcation of responsibilities and task performance roles are well defined. However, Hayes (2012) did not focus on the Ugandan context, and neither did they explore the context of municipalities. Later, Wang and Hooper (2017) added that proper monitoring in ensuring accuracy, punctuality, and attitudes and skills of employees and how they use these to support the organization in achieving its financial objectives. This however, they also did not focus on the context of MFIs of Kabale Municipality, as later explored in this current study.

The effect of information and communication on performance of microfinance institutions

Oguntoyinbo (2011) looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish financial reporting objectives. Open channels of communication are necessary to allow information to flow throughout entity and into financial statements. Therefore, management should discuss identification, capture and flow of financial information in its report. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to inform business decision-making and external reporting (Olumbe, 2012).

The three major categories of management objectives comprise; effective operations, financial reporting and compliance (Hayes, 2012). Effective operations are about safeguarding the assets of the organization. The physical assets like cash, non-physical assets like receivables, important documents and records of the company can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with laws and regulations including company laws, tax laws and environment protection laws.

Internal Control Systems and Performance of Microfinance Institutions

Evans, Olayide, Abass and Adama, (2013) examined the effect of internal control on performance of commercial banks in Nigeria survey method was employed and the study used stratified random sampling, in which a total of 382 questionnaires were administered to either staff of operations, marketing, or security department in the Nigerian commercial banks. The findings of the study revealed a positive and significant relationship between

the four components of internal control (control environment, control environment, monitoring and risk assessment) and bank performance. While information and communication were found to have an insignificant positive relationship with bank performance. The study recommended that future research should add other additional variables like risk culture, corporate governance. Likewise, control variable (s) such as bank size, bank age, etc. can also be considered by future researchers.

Summary of Literature

Performance of MFIs is one area that is given a lot of prominence all over the world, it has been widely researched. A lot of literature has been written on financial performance, and External auditors normally place a lot of emphasis on Internal controls as measure to ensure sustainable and improved financial performance, however, it is the perception of the researcher that there were still gaps in the research so far done. Therefore, there was need to establish the relationship between internal control systems and financial performance of organizations. It can also be concluded from the literature review that, several researchers concur that there is a relationship between Internal Control Systems and performance of MFIs, however this is not specific in the line of microfinance. These conclusions could be confirmed or dispelled from the empirical evidence obtained from the research, a factor that motivated the researcher to conduct this study and get primary results and conclusions in regard to the relationship between internal control systems and performance of microfinance institutions in Kabale Municipality.

1.1.1 Methodology

Research Design

A research design is an overall plan or strategy for conducting research (Ngabirano, 2012). In order to achieve objectives of the study, a cross sectional survey research design was adopted. A cross section survey research design is used when different categories of people are being handled at same time (Amin, 2005). Quantitative and qualitative study approaches were used. A quantitative approach assisted in establishing statistical data that can be generalised to explain the effect of ICS on performance of MFIs in Kabale Municipality. As expressed, quantitative approach when properly conducted gives detailed information from a wide scope of sample involved, and is able to inform a policy or decision (Bryman, 2018). Qualitative research approach was used because it provides a comprehensive detail of first-hand data on internal control systems and performance of financial institutions. Correlation and regression analyses were used to establish the relationship between internal control system and performance of MFIs. The researcher used a survey and field research to gather quantitative and qualitative data respectively.

In this case, this research was done among MFIs operating in Kabale Municipality. The study was carried out at premises of Kabale Municipal Council, Kabale district south Western Uganda.

Study Population

The researcher considered a population of 134 people from Five (5) selected MFIs operating in Kabale Municipality. In the selected MFIs, the total population including; 112 employees and 22 MFI administrators were selected.

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

Where N is the Population (134), n is the sample size and e is the level of significance at 0.05

$n = \dfrac{134}{1+ 134 \times (0.05)^2}$

Sample size, n = 100 respondents

Population Category	Population	Sample Size	Sampling Technique
MFI administrators	22	18	Purposive sampling
Employees (MFIs Staff)	112	82	Simple random
Total	**134**	**100**	

Source: *Computed by Researcher, based on Slovenes Formulae, and MFIs Human Resource Departments, 2021 Validity*

The results of the CVI include questionnaire (59 items) and 12 interview guide items. From the pre-test of tools, a CVI of 0.8 was obtained. This CVI value was above 0.7, thus, the instruments were valid (Amin, 2005).

The instruments were further improved and questions edited to only keep worthy and relevant items for the final study.

Reliability

The higher the score, the more reliable the generated scale is. For instance, Nunnally (1978) argues that a 0.7 alpha coefficient is an acceptable reliability coefficient. In this study, the researcher ensured reliability by applying the same instruments to related respondents two times to see whether the tools could yield the same responses. The researcher conducted a pilot study on 10 respondents from one other MFI in municipality.

Variable constructs	Items tested	Cronbach's Alpha
Control Environment	08	0.77
Risk Assessment	08	0.81
Monitoring	08	0.78
Information and Communication	08	0.72
Performance of microfinance institutions	15	0.76

Data Analysis

Data collected were checked each day to check for consistency and accuracy. After data collection, data were entered in Statistical Package for Social Sciences (SPSS) software programme Ver. 20 for analysis. The hypotheses were accepted when their p-value is less than 0.05 and considered to be with significant relationships. Correlation coefficient (R) and coefficient of determination (R2) were used to determine relationship between variables, presented in tables.

Ethical Considerations

The study uphold all ethical considerations as recommended in research. This involved seeking for participants' informed consent, their privacy and anonymity. It also considered high levels of confidentiality and avoiding plagiarism.

Limitations

Some respondents were not ready to answer the questions, or spare time for the study. This delayed the study and reduced its study. However, the researcher explained purpose of the study to respondents and developed simple and straight forward tools. This encouraged all participants to take part in the study confidently.

Some respondents concealed important data for personal and official reasons. This was on aspect of performance of microfinance institutions that was largely considered as classified information. This however was minimized by promising privacy and confidentiality. More so, the researcher gained formal permission from MFI administration to access this information.

1.1.2 Results
Control Environment

Description	Mean	Std. Deviation
In this MFI, staff are given up to date internal control manuals for reference Purposes	2.30	1.184
Staff are aware of the penalties for breaking internal control procedures	3.57	1.223
Our institution has clear separation of roles		
There is appropriate supervision by senior staff on the work of their juniors	2.87	1.444
In this MFI, policies and procedures are clear and they are issued, updated and revised on timely basis	3.03	1.274
	3.50	1.327
Our security system identifies and safeguard institutional assets	3.60	1.418
Corrective action is taken to address weaknesses	4.06	1.166

Source: *Primary data, 2021*

The study found that the majority of the respondents with a mean score of 4.06 and a standard deviation of 1.166 believed that corrective action was taken to address weaknesses as part of the control environment measures. Additionally, respondents (mean 3.60 and a standard deviation of 1.418) opined that as part of the control environment their security system identified and safeguard institutional assets. Respondents with a mean of 3.57 and a standard deviation of 1.223 argued that staff were aware of penalties associated with breaking internal control environment procedures while other respondents (mean 3.50, standard deviation of 1.327) asserted that in their MFIs, policies and procedures were clear and they were issued, updated and revised on timely basis which defined the control environment clearly.

Additionally, respondents (mean score 3.03, standard deviation of 1.274) presupposed that there was appropriate supervision by senior staff on work of their juniors while other respondents (mean of 2.87, standard deviation of 1.444) noted that their institutions had clear separation of roles. Minority scores (mean= 2.30 and a standard deviation of 1.184) were of respondents that stated that in their MFIs, staff were given up to date internal control manuals for reference purposes.

Risk Assessment

Descriptions	Mean	Std. Deviation
In this MFI, risks are assessed in relation to changes in the operational Environment	3.66	1.550
The reporting mechanism in this place is less risky for this MFI	3.71	1.580
In this MFI, all risks are measured	3.31	1.602
This MFI is strict in identifying risks	2.37	1.416
This MFI has competent and knowledgeable personnel	3.59	1.450
There are mechanisms in place to identify and react to changes that can have an effect on performance of this MFI	3.77	1.276
Services of this MFI possess less risk	1.96	1.377

Source: *Primary Data, 2021*

The study found that the majority of the respondents with a mean score of 3.77 and a standard deviation of 1.276 believed that there were mechanisms in place to identify and react to changes that can have an effect on performance with given MFIs. Other respondents with a mean of 3.71 and a standard deviation of 1.580 opined that the reporting mechanism that was in place was less risky for the given MFIs. Respondents with a mean of 3.66 and a standard deviation of 1.550 argued that their MFIs' risks were assessed in relation to changes in the operational environment. Also, respondents with a mean score of 3.59 and a standard deviation of 1.450 asserted that their MFIs had competent and knowledgeable personnel. More so, respondents with a mean of 3.31 and a standard deviation of 1.602 presupposed that in their MFIs, all risks were measured while respondents with a mean of 2.37 and a standard deviation of 1.416 noted that their MFIs were strict in identifying risks. Minority of respondents with a mean score of 2.27 and a standard deviation of 1.350 highlighted that the services of their MFI possessed less risk. In summary, the study found that 3.77 and a standard deviation of 1.276 believed that there were mechanisms in place to identify and react to changes that can have an effect on performance with given MFIs. The aforementioned findings were supported by qualitative findings from interviews from the respondent coded —A3‖ who acknowledged that;

> *In our banking institution, we make sure that thorough assessment is made which is one of the many aspects with a long history of identifying risks capable of inflicting loses to the organization. With issues regarding risk assessment, we are very prepared to take the necessary steps with the aim of stopping risks from occurring. (A3).*

Monitoring of Activities

Description	Mean	Std. Deviation
Separation of duties exists between departments of this organization	3.77	1.353
There is a clear reporting mechanism for all activities of this branch	4.24	1.221
In this MFI, segregation of duties exists within transaction processing and authorization custody	3.79	1.444
This institution's projects are monitored and reported as required of the monitoring criteria	2.27	1.350
Monitoring strategies are used at any time during monitoring process	3.41	1.620
Quality assurance is adhered to for all projects of the branch	2.50	1.675
External auditors rely on the work of internal auditors while auditing	4.53	.863

Source: *Primary Data, 2021*

The study found that the majority of the respondents with a mean score of 4.53 and a standard deviation of 0.863 believed that external auditors relied on the work of internal auditors while auditing, other respondents with a mean of 4.27 and a standard deviation of 1.221 opined that there was a clear reporting mechanism for all activities in respective branches of MFIs. Respondents with a mean of 3.79 and a standard deviation of 1.444 argued that within the MFIs, segregation of duties existed within transaction processing and authorization custody. Also, respondents with a mean score of 3.77 and a standard deviation of 1.353 asserted that separation of duties existed between departments of their organization. Additionally, the respondents with a

mean score of 3.41 and a standard deviation of 1.620 presupposed that monitoring strategies were used at any time during monitoring process while respondents with a mean of 2.50 and a standard deviation of 1.675 noted that quality assurance was adhered to for all projects of the branch. Minority of respondents with a mean score of 2.27 and a standard deviation of 1.350 highlighted that their institution's projects are monitored and reported as required of the monitoring criteria. In summary, the study found that the majority of respondents with a mean score of 4.53 and a standard deviation of 0.863 believed that external auditors relied on the work of internal auditors. The aforementioned findings were supported by qualitative findings from interviews from the respondent coded ―A9‖ who acknowledged that;

> "Internal auditors are involved in a tremendous job which requires them to put together all the organizational spend. This is later used as a basis for making external reports and auditing from third parties who sometimes maybe intermediaries" (A9).

Communication

Descriptions	Mean	Std. Deviation
Information and communication is encouraged in this institution	4.27	.992
Information and knowledge is shared openly within this organisation	3.40	1.469
Senior management communicate well with the rest of the organisation	3.93	1.344
Information systems in this MFI produce reports containing operational, financial and compliance-related information	3.91	1.248
There is a clear channel of information flow in this MFI	4.36	.917
Information and communication is done in appropriate way	2.71	1.405
Manager does a good job of sharing information	4.37	1.052

Source: *Primary Data, 2021*

The study found that the majority of the respondents with a mean score of 4.37 and a standard deviation of 1.052 believed that the manager does a good job of sharing information, while respondents with a mean of 4.36 and a standard deviation of 0.917 opined that there was a clear channel of information flow in their MFI. Other respondents with a mean of 4.27 and a standard deviation of 0.992 argued that information and communication was encouraged in their institution. Also, respondents with a mean score of 3.93 and a standard deviation of 1.344 asserted that senior management communicated well with the rest of the organization. Additionally, the respondents with a mean score of 3.91 and a standard deviation of 1.248 presupposed that information systems in their MFI produced reports containing operational, financial and compliance-related information while respondents with a mean of 3.40 and a standard deviation of 1.469 noted that information and knowledge was shared openly within their organization. Minority of respondents with a mean score of 2.71 and a standard deviation of 1.405 highlighted that information and communication was done in an appropriate way.

Performance of Micro Finance Institutions

Descriptive statements	Mean	Std. Deviation
This MFI has a high rate of profitability	3.71	1.342
Liquidity in this MFI has been good	3.19	1.427
This MFI has accumulated assets for future expansion	3.34	1.483
This MFI meets all its short and long term financial obligations whenever they are Due	3.30	1.334
All transactions by this MFI is well reported to stakeholders	3.63	1.446
This MFI meets its budgets estimates for all user departments	3.90	1.241
Financial reports are prepared in time	3.83	1.464
There is increased sales volume in this MFI	3.23	1.321
There are reports of financial mismanagement in some departments	3.84	1.270
The institution employs charted certified financial managers	2.26	1.259
The financial statements are regularly audited by an independent auditor	4.34	1.006
Robust financial management practices are associated with better loan performance of MFIs.	4.09	1.100
Level of portfolio quality at MFI determine its performance	3.81	1.266
Portfolio quality is related to credit risk management	4.23	1.144
Portfolio quality improves with good/better credit risk management measures	4.53	.974

Source: *Primary Data, 2021*

The study found that the majority of the respondents with a mean score of 4.53 and a standard deviation of 0.974 felt that their portfolio quality improves with good/better credit risk management measures while

respondents with a mean of 4.34 and a standard deviation of 1.006 opined that the financial statements are regularly audited by an independent auditor. Other respondents with a mean of 4.23 and a standard deviation of 1.144 argued that portfolio quality is related to credit risk management. Also, respondents with a mean score of 4.09 and a standard deviation of 1.100 asserted that robust financial management practices are associated with better loan performance of MFIs. Additionally, respondents with a mean score of 3.90 and a standard deviation of 1.241 proclaimed that their MFI meet their budgets estimates for all user departments. Also, respondents with a mean of 3.84 and a standard deviation of 1.270 asserted that there are reports of financial mismanagement in some departments. Respondents with a mean score of 3.83 and a standard deviation of 1.464 asserted that financial reports are prepared in time. Respondents with a mean score of 3.81 and a standard deviation of 1.266 emphasized that the level of portfolio quality at MFI determine its performance.

Correlation analysis

Spearman's rho	Variables		Performance
	Control environment	Correlation Coefficient	.023
		Sig. (2-tailed)	.849
		N	70
	Risk assessment	Correlation Coefficient	-.310(**)
		Sig. (2-tailed)	.009
		N	70
	Monitoring activities	Correlation Coefficient	-.101(**)
		Sig. (2-tailed)	.004
		N	70
	Communication	Correlation Coefficient	.008
		Sig. (2-tailed)	.948
		N	70

** Correlation is significant at the 0.01 level (2-tailed). Source: *Primary data, 2021*

The results portrayed in Table 16 above reveal that there is no significant relationship between control environment and performance of microfinance institutions in Kabale Municipality. This relationship is indicated by the Spearman's correlation coefficient of 0.023 insignificant at P>0.01. This implied that any effort taken by MFIs to improve and control environment would not necessarily yield a strong likelihood of registering an increase in performance. The results also revealed that there was a negative weak significant relationship between risk assessment and performance of MFIs in Kabale Municipality (r= -.310 and P-Value<0.01). This implies that if microfinance institutions continuously embrace risk assessments, they will on average have high performance.

Furthermore, the findings in Table 16 also revealed a weak negative relationship between monitoring activities and performance of MFIs in Kabale Municipality. This is evidenced by the Spearman's correlation coefficient of -.101 and p-Value<0.01. This implied that if MFIs in Kabale Municipality continue to embraces monitoring activities, it will on average obtain higher performance. Also, findings in Table 4. 12 indicated that there was an insignificant relationship between communication and performance of microfinance institutions in Kabale Municipality. This relationship is indicated by the Spearman's correlation coefficient of 0.008 insignificant at P>0.01. This therefore implied that any effort taken by MFIs to improve and communication would not necessarily yield a strong likelihood of registering an increase in performance.

Discussion
Effect of control environment on performance of microfinance institutions
The study revealed an insignificant effect of control environment on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that control environment strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between control environment and performance of MFIs in Kabale Municipality.

Microfinance institutions should therefore consider applying other internal control systems to improve their performance. These findings were in agreement with previous studies which established an insignificance of the control environment on performance. Such as, that conducted in Kenya by Kinyua, Gakure, Gekara, and Orwa

(2015) which was conducted on the Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange.

Effect of risk assessment on performance of microfinance institutions
The study revealed that there was a significant effect of risk assessment on performance of microfinance institutions in Kabale Municipality. This was observed when p value was less than 0.05. This therefore implied that risk assessment systems in the study significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a significant effect between risk assessment and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying risk assessment as an important internal control system so as to improve their performance. These findings were in agreement with previous studies which established a significant effect of internal control systems in terms of risk assessment on performance. Such as, that conducted in Nigerian commercial banks by Evans, Olayide, Abass and Adama, (2013) which examined the effect of internal control on performance. The research findings of the study revealed that there was a positive and significant effect between the three components of internal control systems which included, risk assessment, control environment, and monitoring.

Effect of monitoring activities on performance of microfinance institutions
The study revealed an insignificant effect of monitoring activities on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that monitoring systems and strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between monitoring activities and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems such as risk assessments to improve their performance.

Effect of communication on performance of microfinance institutions
The study revealed an insignificant effect of communication on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that communication systems and strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between communication and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems to improve their performance. These findings were in agreement with previous studies which established an insignificance of the control environment on performance. Such as, that conducted in Kenya by Kinyua, Gakure, Gekara, and Orwa (2015) which was conducted on the Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. The study revealed an insignificant effect of monitoring activities on financial performance.

Effect of communication on performance of microfinance institutions
The study revealed an insignificant effect of communication on performance of microfinance institutions in Kabale Municipality. This was observed when p value was greater than 0.05, meaning that communication systems and strategies in the study don't significantly explain variations in performance of microfinance institutions in Kabale Municipality. The study therefore confirms that there is a non-significant effect between communication and performance of MFIs in Kabale Municipality. Microfinance institutions should therefore consider applying other internal control systems to improve their performance.

These findings were in disagreement with previous research undertakings which revealed a significant effect between communication and performance. Such as, that conducted by in Kenya in Baringo County government by Lagat and Okelo (2016) on the effect of internal control systems on financial management in Kenya which revealed that the use of communication technology significantly influenced performance of microfinance institutions.

Conclusion and Recommendations
The study concluded that risk assessment is very important and should be embraced to enhance performance in terms of increased profitability, liquidity, asset accumulation, portfolio quality, and financial management. Therefore, Management's involvement in enhancement of risk assessments is critical in contributing towards service delivery at Kabale Municipal council. The study concluded that communication systems employed in microfinance institutions in Kabale Municipality do not explain variations in their performance. From the study, it was learnt that control environment had an insignificant effect on performance of microfinance institutions in Kabale Municipality. Therefore, the study concluded that intervention need to spearhead on issues pertaining to control environment so as to enhance performance. Basing on research findings, it was learnt that monitoring of

activities had an insignificant effect on performance of microfinance institutions in Kabale Municipality. Therefore, the study concluded that monitoring activities employed in microfinance institutions in Kabale Municipality do not explain variations in their performance.

The study recommends that microfinance institutions in Kabale Municipality need to embrace risk assessments so as to grow their performance base in terms of liquidity, asset accumulation, portfolio quality, and financial management, this can be done by ensuring that there are mechanisms in place to identify and react to changes that can have an effect on performance with given MFIs, it could also be done by putting in place reporting mechanism that are less risky for the given MFIs

The study recommends that microfinance institutions in Kabale Municipality need to embrace appropriate environmental control systems and strategies. This can be done by ensuring that corrective action is taken to address weaknesses, it could also be done by making sure that security system identified safeguard institutional assets. Staff should also be made aware of the penalties for breaking internal control procedures. It is also necessary for MFIs to ensure that policies and procedures are clear and they are updated and revised on timely basis. Additionally, there should be appropriate supervision by senior staff on the work being undertaken juniors.

The study recommends that microfinance institutions in Kabale Municipality need to embrace appropriate communication systems and strategies. This can be done by ensuring that managers do a good job of sharing information, also, there should be a clear channel of information flow within the MFI. It is also important that management within the MFI produces reports containing operational, financial and compliance-related information to support their daily operations.

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