FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF MICRO FINANCE INSTITUTIONS.

A CASE STUDY OF LYAMUJUNGU SACCO KABALE DISTRICT

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DECLARATION

I, KOMUHANGI Jacenta declare to the best of my knowledge that this dissertation is a result of my own effort and has never been presented for any academic award to any other university or institution of higher learning.

Signature……………………………………………… Date……………………………

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DEDICATION

I dedicate this work to my family, friends and staff members who stood with me during tough times, and their smiles that leaves me with unconditional love and joy.

ACKNOWLEDGEMENT

I acknowledge my supervisors, family and friends for the tireless efforts rendered to me towards the completion of this dissertation.

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LIST OF ACRONYMS

CGAP-	Consultative Group to Assist the Poor
CVI-	Content Validity Index
LCFSL-	Lyamujungu Co-operative Financial Services Limited
MFBs -	Micro Finance Banks
MFIs -	Micro Finance Institutions
MSC-	Micro Finance Support Center
ROA-	Return on Assets
SACCOs-	Savings and Credit Co-operatives
SPSS-	Statistic Package for Social Scientists

ABSTRACT.

The study was sought to establish the relationship between financial management practices and financial performance of microfinance institutions in Uganda. This study was anchored on two theories which included; Stewardship Theory and Stakeholder theory. The determinants of financial performance included return on assets, profitability and loan portfolio. The study relied on cross-sectional survey design as its research design, data was collected using questionnaire. Data was analyzed using SPSS 20.0 and other descriptive statistics. Descriptive statistical tools included frequencies, percentages, means and standard deviations. Inferential statistics included Pearson's Product Moment Correlation and multiple regression analysis. A sample of 109 respondents was selected using simple random and purposive sampling. The primary method of data collection was the self-administered questionnaire while correlation constituted data analysis. The findings indicate that internal control systems, cash flow management, and working capital management significantly affect financial performance of microfinance institutions. Regarding the effect of internal control on financial performance, the study findings revealed that Pearson Rank Correlation (R = .794**), sig. value p<0.01 and sample size (n=109). Basing on the above results, the study reveals that there is a statistically strong positive significant relationship between internal control systems and Financial Performance Regarding the correlation between cash flow management and financial performance, the study findings revealed that Pearson Rank correlation (r=-.753**), sig. value p<0.05 and sample size (n=109). The study revealed that there is a statistically positive significant relationship between cash flow management and financial performance. Regarding the correlation between working capital management and financial performance was strong, based on (R = .706; sig. <.05). The statistics indicate that a variation working capital management is associated with a strong variation in financial performance. It was concluded that proper financial management practices could enable MFIs to enhance their financial performance. The government and development partners should emphasize on adherence to proper financial management practices in MFIs. Such initiative is expected to enhance MFIs growth and community empowerment. This study recommends that Board of Directors ensures that all assets are registered in the asset register and all Physical Assets that belong to Lyamujungu SACCO be engraved and numbered with clear and visible labels.This study recommends that Management to Lyamujungu SACCO should ensure that expenditure done is in line with the planned budget in order to meet its expectations as far as financial performance is concerned. This study recommends that the Board of Directors need to encourage members to put much money in share capital since it is through this that members can earn a lot of interest and increase on their shares and profits after sharing of dividends. In addition to this some incentives should be given to the members with a good number of shares such as life schemes, to the most saving clients commissions, some token and give some small percentage to loan creditors who pay on time.

CHAPTER ONE

INTRODUCTION

1.0.Introduction

Currently, financial management has become a key economic driver in many countries across the globe in that many businesses depend on financing as their source of capital (Ongosi & Otinga, 2020). However, the poor are considered non-eligible to be served by commercial banks due to lack of collaterals, employment, lack of credit history, and generation of income which are the minimum requirements of the traditional banks (Gichobi & Omagwa, 2021). Microfinance institutions have a substantial role in fixing the gap between formal monetary institutions and the rural poor, including low-income households, entrepreneurs, and emerging businesses, by providing them with much-needed financial services such as small loans, payment services, insurance, deposits, and money transfers (Alshehhi *et al*, 2018). Financial management of microfinance institutions remains one of the critical issues in the sector, and as such, financial management practices are essential in determining the financial performance of MFBs (Mabonga & Kimani, 2017). Sound financial management practices benefit and provide long-term direction and stability to microfinance banks' operations (Gichobi & Omagwa, 2021). In this study financial management Practices was conceived as independent variable and Financial Performance as dependent Variable. Financial management Practices was conceptualized as Internal Controls, Cash Flow Management and Working Capital Management. Financial performance was measured as Return on Assets, profitability and Loan Portfolio. Financial performance is a complete evaluation of a microfinance institution's overall standing in categories such as return on assets, profitability, and loan portfolio. The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders and stockholders. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

1.1 Back ground of the study

The background of this study was conceptualized under four perspectives namely; historical perspective, theoretical perspective, conceptual perspective, and contextual perspective.

1.1.1 Historical perspective

The concept of financial management emerged as a distinct field of study at the turn of this century. Its evolution may be divided into three broad phases): the traditional phase, the transitional phase, and the modern phase. The traditional phase lasted for about four decades. The following were its important features: The focus of financial management was mainly on certain episodic events like formation, issuance of capital, major expansion, merger, reorganization, and liquidation in the life cycle of the firm. The approach was mainly descriptive and institutional. The instruments of financing, the institutions and procedures used in capital markets, and the legal aspects of financial events formed the core of financial management. The transitional phase begins around the early forties and continues through the early fifties. Though the nature of financial management during this phase was similar to that of the traditional phase, greater emphasis was placed on the day-to-day problem faced by the finance managers in the area of funds analysis, planning, and control. These problems however were discussed within limited analytical framework. The modern phase begins in mid 50s and has witnessed an accelerated pace of development with the infusion of ideas from economic theories and applications of quantitative methods of analysis. The distinctive features of modern phase are: The scope of financial management has broadened. The central concern of financial management is considered to be a rational matching of funds to their uses in the light of appropriate decision criteria.

Despite of tremendous progress in other parts of the world, East African countries still lag behind in terms of social and economic development (Bayai & Ikhide, 2018). Main policy instrument proposed to leverage the economy include interventions through delivery of microfinance services to the poor. For sustainable economy, the MFIs should be financially sustainable (Nobanee and Ellili, 2016). Given the relation between the well-being of the microfinance sector and the goal of economic empowerment, knowledge of the underlying factors that influence the sector’s financial performance is therefore essential not only for the managers of the MFIs, but for numerous stakeholders such as the central bank, governments, and other financial authorities (Kiarie, 2018). It is estimated that about 1.7 million people across the world do not have formal access to financial service and products including ownership of bank account a situation that is described as financial management practices and financial institution's performance (World Bank's global findex survey, 2019).

1.1.2. Theoretical perspective

This study was guided on the Stewardship theory and Stakeholder theory. The Stewardship theory was the guiding theory of the study. This theory was introduced by Donaldson and Davis (1989). Stewardship theory is about the employment relationship between two parties, the principal (owner) and the steward (Ahrens, 2018). It too examines this relationship from a behavioral and a structural perspective. Theory suggests that stewards will behave in a pro-social manner, behavior which is aimed at the interest of the principal and thus the organization (Graham, *et al*, 2020). This behavior is fostered by the quality of the relationship between the principal and steward and the environment and ideals of the organization (Abbott, et al, 2020). Theory suggests this outcome is achieved when both the principal and the manager in the employment relationship select to behave as stewards. At the heart of stewardship theory is the assumption that the principal-steward relationship is based on a choice. The stewardship theory holds that managers inherently seek to do a good job, maximize company profits and bring good returns to stockholders.

Stake holders' theory which was developed by Edward Freeman in 1980's gives a common understanding of the relationships that exist amongst the SACCOs to achieve its purpose in serving a plurality of stake holder's results into competitive advantage and financial improvement. Good stewards work collectively rather than individually and are not instrumentally motivated, as are agents who subscribe to agency theory. Stewardship theory basically argues that a steward recognizes that individualistic, opportunistic, and self-serving goals will be met if work is done for the greater good of the organization. Many microfinance institutions have set out on a development path towards becoming true financial intermediaries; offering not only loans, but a full range of banking services including savings, checking and other non-cash payment services (Zutter & Smart, 2019). Dealing not only with the fluctuating demand for loans but also with erratic deposit variations makes the task of liquidity management quite complex and requires systematic planning. At the same time, the growing size of MFI operations means that their liquidity has become an issue of regional economic importance. Liquidity therefore is the number one concern of every microfinance institution. The stakeholder theory was used to describe different groups that make up a SACCO.

Stakeholder theory helps in management because it goes beyond describing relationships and causal-effects in the SACCO, but, describes structures, ethics and attitudes that constitute stakeholder management. According to Freeman, a company is only successful when it delivers value to its stakeholders. Because they have a direct impact on business, both positively and negatively. Here are some of the key benefits of keeping stakeholders satisfied: Motivated employees (and happier customers) When employees feel valued, they work harder. And harder working employees means a more efficient business. That efficiency also means you'll have happier, more satisfied customers who are more likely to remain loyal and recommend you to others. Increased investment better performance and a strong customer base mean you're more likely to receive good publicity and higher levels of trust from financiers and investors who are more likely to add money to your funds. This, in turn, will help your business grow and secure you a greater share of the market. Improved reputation Stakeholders include communities, government bodies, and environmentalists.

Considering the needs of these groups while operating in a manner that's transparent and free from corruption not only ensures stakeholder satisfaction, but it also improves the reputation of your company and fosters good public relations — something that's especially important in today's increasingly connected, ethically-conscious world.

1.1.3. Conceptual perspective

The main research concepts were to look at financial management practices and financial performance of microfinance institutions in Uganda. According to (Nkundabanyanga et al., 2017), Financial management practices are planned and systematic modifications of client behaviors through learning events, activities and programs which result in the participants achieving the levels of knowledge, skills, competencies and abilities to use borrowed fund and financially improve financial institution's performance.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period.

Return on assets (ROA) is a measure of how efficiently a company uses the assets it owns to generate profits. Managers, analysts and investors use ROA to evaluate a company's financial health.

Profitability is a measurement of efficiency. It is a metric that is used to determine the scope of a company's profit in relation to the size of the business and ultimately its success or failure. Profitability can tell key stakeholders whether a company is able to sustain its position in the market and continue to grow.

Loan portfolio: Loans that have been made or bought and are being held for repayment.

1.1.4. Contextual perspective

It was reported that Microfinance institutions (MFIs) worldwide have been seen and identified as vital institutions to nations' quest for solutions to the development challenge (CGAP, 2016). Micro finance in Uganda is a vibrant growing industry and the government of Uganda has over the past decade initiated, implemented and or supported various micro credit schemes aimed at fighting poverty in the country. Most studies undertaken in the past few years have focused mainly on outreach of MFI's and their impact on profitability and not on internal control system, cash flows management, and working capital.

Lyamujungu Cooperative Financial Services Limited with its headquarters at Lyamujungu Cell, Nyakasharara Parish, in Kaharo Sub County, Kabale District. Currently, Lyamujungu Cooperative Financial Services Ltd has seven fully operating with branches with total membership of 27,000, an approximate of 545 loan clients and loan portfolio of Uganda shillings 13 billion, (LCFSL Report, 2021). Lyamujungu Cooperative Financial Services Limited has continuously committed to a sizeable investment into best financial management practices and investing in new outreach center and development to enhance their performance in partnership with their development partners such as Agrittera and aBi-trust (LCFSL Monthly Report, 2021). However, membership in the Lyamujungu Cooperative Financial Services Limited guarantees its financial sustainability. This becomes important when the SACCO can regulate the size of her members and are financially reachable (Bayerlein, *et al*, 2020).

Despite the support from microfinance support Centre (MSC) and Uganda cooperative alliance (UCA), the financial performance Lyamujungu cooperative financial service limited has been declining over years. The critical analysis of annual supervision reports indicates a tremendous reduction in financial performance 2016-2017, 3.5% to 3.1%, 2017-2018, reduced from 3.1% to 2.8%, 2018-2019 reduced from 2.8% to 2.4%, 2019-2020, reduced from 2.4% to 2.1%, and from 2020 to 2021 reduced from 2.1% to 1.9%. If this performance trend remains reducing, the sustainability of the SACCO would likely be affected and this would even result to closure and it is against the above situation that the study seeks to examine the effect of financial management practices on financial performance of microfinance institutions in Uganda. A case of Lyamujungu Cooperative Financial Services Limited, Kabale district.

1.2. Statement of the Problem

The government of Uganda through the ministry of finance, planning and economic development established Uganda cooperative alliance and microfinance support Centre (MSC) to uplift the performances of microfinance institution. Microfinance support Centre provides affordable credit support to targeted institutions including Microfinance Institutions at rate ranging from 9%, 13%, 17% and 11% which is below the commercial bank rate 20% (Ministry of Finance, Planning and Economic Development Semi-Annual Budget Monitoring Report 2016/2017).

Despite the support from microfinance support Centre (MSC) and Uganda cooperative alliance (UCA), the financial performance Lyamujungu cooperative financial service limited has been declining over years. The critical analysis of annual supervision reports indicates a tremendous reduction in financial performance 2016-2017, 3.5% to 3.1%, 2017-2018, reduced from 3.1% to 2.8%, 2018-2019 reduced from 2.8% to 2.4%, 2019-2020, reduced from 2.4% to 2.1%, and from 2020 to 2021 reduced from 2.1% to 1.9%.

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1.3. Purpose of the Study.

The purpose of this study was to examine the effect of financial management practices on financial performance of Lyamujungu Cooperative Financial Services Limited in Kabale District.

1.4. Objective

i. To examine the effect of internal control systems on financial performance of Lyamujungu Cooperative Financial Services Limited in Kabale District, Uganda.
ii. To evaluate the effect of cash flows management on financial performance of Lyamujungu Cooperative Financial Services Limited in Kabale District, Uganda.
iii. To examine the effect of working capital on financial performance of Lyamujungu Cooperative Financial Services Limited in Kabale District, Uganda.

1.5. Research Hypothesis

H_{01}: Internal control systems do not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District

H_{02}: Cash flow management does not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District

H_{03}: Working capital does not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District

1.6. Scope of the study

The scope of the study included the content scope, the geographical scope and the time scope as below;

1.6.2. Content Scope

The study was limited to determining financial management practices and financial performance of Lyamujungu Cooperative Services Limited in Kabale District. Financial management practices were the independent variables and financial performance was the dependent variables. Content on financial management practice were limited to three practices these are internal control systems, working capital management and cash flow management. While the content on financial performance was limited to returns on assets, profitability, and loan portfolio. Findings on these measures of performance provided a good descriptive position of performance of SACCOs in Kabale district.

1.6.3. Geographical coverage

The main focus of this study was Lyamujungu Cooperative Financial Services Limited in Kabale district south western Uganda. The Kabale District is bordered by Rukungiri District Rukungiri to the north, Rukiga District to the north-east, Rwanda to the east and south, Rubanda District to the west, and Kanungu District to the north-west. Kabale is approximately 143 kilometers (89 miles), by road, southwest of the city of Mbarara, the largest urban Centre in Uganda's Western Region. Kabale is located approximately 410 kilometers (255 miles), by road, south-west of Kampala, the capital of Uganda (Google, 2020). The coordinates of Kabale are: 01 15 00S, 29 59 24E (Latitude: -1.2500; 29.9900).

1.6.4. Time scope

The study was conducted from literature Reviews of 2016- 2021 a period of five years. The study also included both print and electronic media articles, books, and journals on financial management practices and financial performance of Lyamujungu Cooperative Financial Services Limited cited from different authors for a period 2016 to date. The researcher anticipated to have collected necessary data required for analysis and concluded with research in a period of one year.

1.7. Significance of the study.

The significance of the study includes the following: -

The outcome of this study anticipated to benefit policy makers, academicians, Microfinance institutions, researcher and the researchers.

To the policy makers, the findings of the study will help them as a toll regulation of microfinance activities.

To the academics, they will be in position to know and appreciate the context of the microfinance sector.

For SACCO managers, the study recommendations will help them address issues identified in the findings so as to improve the effectiveness and efficiency of the organization.

Using the findings from the study, SACCOs will improve on their loan performance by imbedding financial management practices and competitive advantage in their operations.

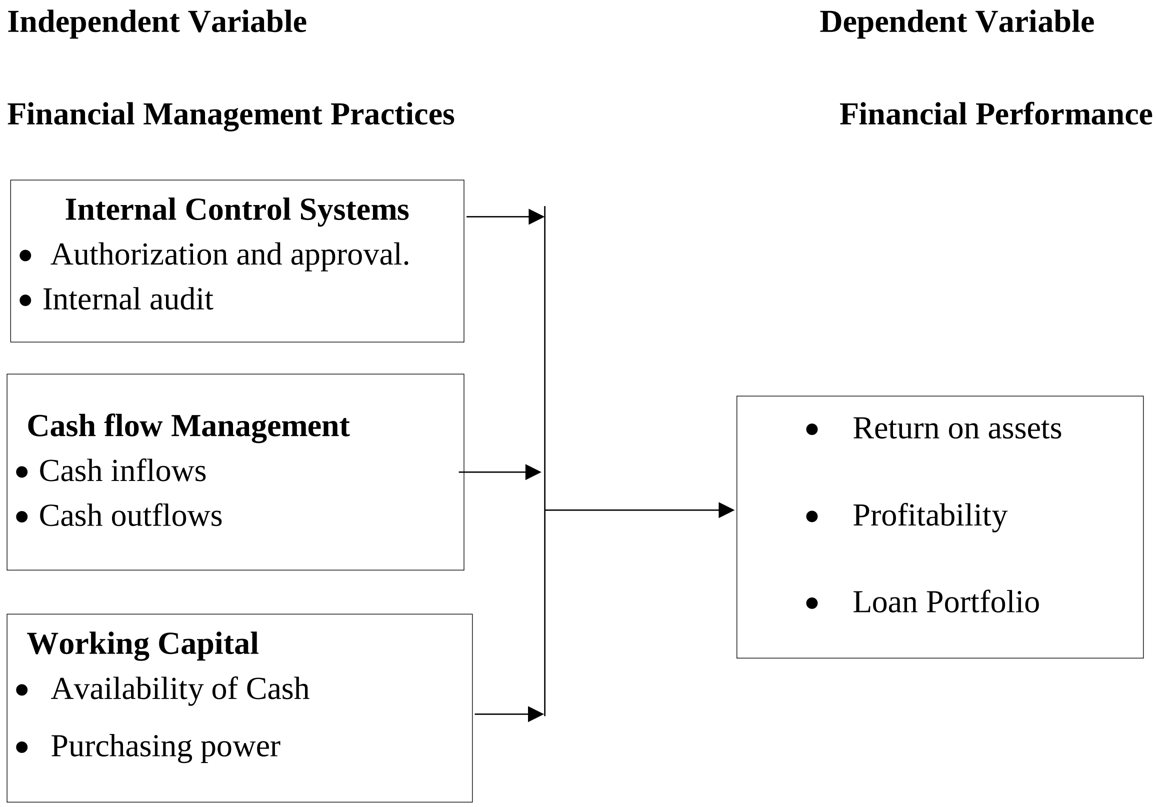
Lastly, the findings from the study are also expected to add on the body of existing knowledge in the area of financial management practices, and performance of MFIs. Ugandan SACCOs will improve their performance whilst still enabling SACCOs to achieve financial and operational sustainability.

1.8 Justification of the study

Some of the most recent studies on performance in microfinance institutions which characterize SACCOs have examined financial performance from the viewpoint of credit allocation, risk management and loan portfolio (Buluma, et al, 2017). This study ignored the role of financial inclusion on performance of credit MFI. Similarly, another study by (Bwoma, et al, 2017) examined the institutional factors influencing loan performance in Uganda Development Bank. The researcher focused on staff related factors, policy related factors and MIS related factors. While the author made did not mention on the financial inclusion factors, the focus was given to staff numbers and their roles in helping staff to improve performance. This study did not address members training needs and increasing out center for easy access of fund by members of MFI. To contribute to bridging such gaps in MFIs, the current study will explain credit performance of MFIs with focal on financial inclusion. The researcher will take observation to see whether current loan members of the microfinance were trained before granting them fund in financial management practices that align to microfinance growth and development, their financial performance is likely to increase.

1.9 Conceptual Frame Work.

The conceptual frame work below suggests a relationship between financial management practices and financial institutions' performance in terms of internal control, cash flows and working capital. The conceptual framework below, derives from the view that improving financial management practices (ensuring effective working capital management, risk management and budgeting) will enhance effective financial performance (cost effectiveness and differentiation)



Source: Adopted from Montana, B. (2012) and modified for this study by researcher

Figure 1: Conceptual Framework

1.10 Definition of key terms

Financial management practices: It is the financial planning and control, financial analysis, risk management, accounting information, management accounting (pricing and costing), capital budgeting and working capital management or it is the financial management practices as the process of managing the financial resources, including budgeting, accounting and finance

Internal control systems: Internal control system in SACCOs is defined as a set of procedures, mechanisms, and policies governing the chain of activities carried out by the SACCO as well as the hierarchical checks needed at every level so that fraud, embezzlement, misappropriation of funds or any other malpractices can be prevented. Internal control ensures separation of duties at every stage of activities and clearly indicates who does what and who authorizes each process of operations conducted in the SACCO.

Cash flow management: cash flow management for in banking can be summarized as the process of monitoring, analyzing, and optimizing the net amount of cash receipts minus cash expenses. Net cash flow is an important measure of financial health for any financial institution.

Working capital management: Working capital management is a business strategy designed to ensure that a financial institution operates efficiently by monitoring and using its current assets and liabilities to the best effect.

Return on Assets: A profitability ratio that provides how much profit a company can generate from its assets. In other words, return on assets (ROA) measures how efficient a company's management is in earning a profit from their economic resources or assets on their balance sheet

Loan portfolio: The outstanding principal balance of all of the MFI's outstanding loans including current, delinquent and restructured loans, but not loans that have been written off.

Profitability: Is defined as the ability of firms and organization to build and maintain a strong and stable financial background.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents theoretical and empirical literature on financial management practices and financial performance from previous studies. The literature was sourced from books, peer reviewed journal articles, websites, magazines among others,

2.1. Theoretical perspective

2.1.2. Stewardship Theory

Simply, the stewardship theory is a theory that managers, left on their own, will act as responsible stewards of the assets they control, and describes the existence of a strong relationship between satisfaction and organizational success. This theory was introduced by Donaldson and Davis (1989). Good stewards work collectively rather than individually and are not instrumentally motivated, as are agents who subscribe to agency theory. Stewardship theory basically argues that a steward recognizes that individualistic, opportunistic, and self-serving goals will be met if work is done for the greater good of the organization. Many microfinance institutions have set out on a development path towards becoming true financial intermediaries; offering not only loans, but a full range of banking services including savings, checking and other non-cash payment services (Zutter & Smart, 2019). Dealing not only with the fluctuating demand for loans but also with erratic deposit variations makes the task of liquidity management quite complex and requires systematic planning. At the same time, the growing size of MFI operations means that their liquidity has become an issue of regional economic importance. Liquidity therefore is the number one concern of every microfinance institution. The theory holds that managers are motivated by achievement and responsibility needs and are self-directed, besides attaching significances to their personal reputation. Thus, managers are stewards whose motives are aligned with the objectives of the principal (Donaldson & Davis, 1991).

According to the research of Davis et al. (1997), managers are stewards and team players who align themselves with the objectives of their principals, not a rational opportunist bent on maximizing his or her own utility to the detriment of others, including the principal. An underlying premise of the stewardship theory is that directors, having a fiduciary duty, can be trusted and will act as stewards over the resources of the company. Thus, the principals can allocate corporate power to professional managers and empower them to maximize shareholder wealth for the private sector, or social benefit for the public sector (Chrisman et al, 2017). In effect, managers in the stewardship model are good stewards of corporate assets and they work diligently to maximize shareholder returns when empowering structures are put into place (Davis et al., 1997). In stewardship theory, both the executive and the shareholder have an interest in maximizing the long-term stewardship of the company and their interests are therefore already well aligned (Madison, Holt, Kellermanns, & Ranft, 2016).

In stewardship theory, managers and owners collaborate and the emphasis of the board's role is developing strategy rather than monitoring performance (Koksal, M.H., and Ozgul, E. 2017). Inherent in this theory is the understanding that the owners are prepared to take risks on how managers run their business and invest their resources, indicating a high level of trust (Chua, 2018). According to Donaldson. L and Davis. J. (2016), despite working collaboratively and collectively with management in providing strategic direction, the role of the board as monitor is not compromised and indeed increases organizational performance. In order for the board to play higher-level roles, members should be selected on the basis of their expertise and contacts so that they are in a position to add value to the organization's strategies and decisions. Additionally, boards and managers should receive proper induction and training so that they can operate as effectively and optimally as possible (Gavrea, C., Ilies, L., and Stegerean, R. (2018).

2.1.3. Stakeholders Theory

According to Stakeholder theory the sustainability of a financial institution needs the support from the stakeholders. The more powerful stakeholders, the more the financial institution must adjust (Meutia & Febrianti, 2017). But, (Shan, 2019) argues, that stakeholders can influence (directly or indirectly) control of assets required by the financial institution. For that reason, stakeholder's domination is determined by the level of control they have over the assets.

Therefore, when stakeholders have a control to significant resources of the financial institution, the financial institution is such as to react in a manner that satisfies the stakeholders. On the other hand, (George & Reed, 2019) discuss that organizations select the stakeholders that they need to consider based on their comparative power, influence and legitimacy. The activities that they will choose in order to realize the desired relationship with those stakeholders. The Government is one important stakeholder for the Microfinance Institution; others include; shareholders, members who subscribe to the financial institution, suppliers, and creditors therefore the microfinance institution will try to make disclosures based on the rules set by the stakeholders. Therefore, it is very likely there will be a difference in terms of financial institution performance caused by the differences in the rules that exist in the country which are meant to monitor the performance of microfinance institutions. Stake holder control over the assets and financial creates confidentiality among members who subscribe to financial institution. Stakeholder’s involvement to members that their finances are safe and will not be misappropriated. According to the stakeholder paradigm, active stakeholder participation in every development project is crucial and kind to the initiative's beneficiaries. Without community involvement, it is impossible to manage the challenges, constraints, and particular needs of a certain community. Meusia et al. (2017) claim that the engagement of project recipients is of major principle since it enhances project monitoring and assessment. As a result, members of the community gain project ownership wisdom. This is essential to ensuring that projects are viable and long-lasting. The foundation of the stakeholder theory is the idea that organizations can only be deemed successful if they provide value to the majority of their stakeholders. Stake holder theory therefore helps the financial institution to reduce the value it provides to suppliers in order to increase the value it provides to its members. Rather, it is the financial institution’s responsibility to transform financial management practices in order to attain better performance.

2.2 Financial Management Practices

Financial management practice is referred to the individuals’ behavior and perception on how well they manage their finances (Ahmad, 2016). Financial literature suggests that optimal application and commitment towards financial management practices result in an increased company’s performance. The financially well-managed companies are operationally efficient. This stands as a positive sign for investors and regulatory authorities (Komal, 2017). Financial management practices are sets of common standard operating techniques concerned with the financial practices of an organization and the tools that are involved in decision making. Financial management practice is the optimum utilization of funds so that objectives of an enterprise can be accomplished. (Wawire, 2019).

2.3 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period (Mathuva, 2016). Financial performance measures how well an organization is generating revenue for the shareholders. Financial performance is the result of many of different activities undertaken by a firm. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Munteanu *et al*, 2016). Financial performance is used as a general measure of SACCO's overall financial health over a given period of time, and can be used to compare similar SACCOs across the SACCOs industry or to compare firms or sectors in aggregation (SASRA, 2015). Financial performance is a subjective measure in monetary terms of entity's arrangements results, tasks and exercises evaluated for a while. Various analysts utilize various measures while considering and exploring on firm performance in particular book keeping based measures and market-based measures (Larcker and Tayan, 2016).

2.4 Financial Management Practices and Financial performance

Financial management practice is the financial planning and control, financial analysis, risk management, accounting information, management accounting (pricing and costing), capital budgeting and working capital management or it is the financial management practices as the process of managing the financial resources, including budgeting, accounting and finance (M'nviri, 2018).

Abu (2019), investigated Financial Management Practices and performance of SMEs in pharmaceutical sector trading in Dkaka stock exchange. Njoroge (2015), emphasizes on how inventory management affects performance of SMEs hospitals in Kenya. M'nyiri (2018), studied how small and medium enterprises hospitals service delivery are influenced by financial management practices in Nakuru sub-county. Fekete, (2020), focused on the health quality and performance of SMEs in South Carolina. Ikechuku (2018), focused on how pharmaceutical SMEs in Nigeria are affected by liquidity. Wawire (2019), looked at determinant of financial performance of pharmaceutical SMEs in Kenya. Fekete (2020), focused on how returns of private hospitals in Nairobi are related with budgeting practices. Muthoni (2019), investigated how financing in health sector affects service delivery in Mombasa County. Onyango (2018), focused about the effects entrepreneurial impact on the performance of SMEs in the county of Mombasa. Although studies have been conducted, pertaining management practice of finance in SMEs as shown above, the findings obtained have been inconclusive. The relationship between management practices of finance and financial performance of SMEs in pharmaceutical sector have not been well established beyond reasonable doubt. This made the study necessary to further assess the points of non-consensus on the relations between finance management practices and performance of SMEs financially. In addition to that, since time has elapsed, many things might have changed from when they were carried. This study aims was bridging the above highlighted knowledge gaps by attempting to address the issue of non-consensus, time lapse and location of study done in the SMEs sector.

2.3 Internal Control System and Financial Performance

Internal control systems play an important role in any organization as they help achieve financial performance goals. Internal controls minimize risk, protect assets, ensure record accuracy, increase operational efficiency, and facilitate compliance with policies, rules, regulations, and laws (Bashaija, 2022). Internal controls are the mechanisms, rules, and procedures implemented by a microfinance institution to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud (Bananuka *et al,* 2018). Ibrahim *et al*, (2017) argue that internal controls reflect measures instituted by Microfinance Institutions so as to ensure attainment of the SACCO's objectives, goals and missions. In some instances, internal controls are check mechanisms to avoiding wastages, theft and mismanagement of the Micro Finance Institutions assets.

2.3.1 Authorization and approval and financial performance

Authorization and approval are control activities that mitigate the risk of inappropriate transactions. They serve as fraud deterrents and enforce segregation of duties. Thus, the authorizer and the approver should generally be two separate people. Authorization is the power granted to an employee to perform a task. It is a delegation of duties. Management defines the terms of the authorization and ensures that those terms are documented and clearly communicated. For example, an employee may be authorized to make small purchases without supervisory approval. Approval is the confirmation or sanction of employee decisions, events or transactions, based on an independent review. It signifies that the approver has reviewed the supporting documentation and is satisfied the transaction is accurate and complies with applicable laws and regulations. For example, a manager reviews a purchase request and signs it, indicating that the purchase is valid and necessary. Management determines if an item requires approval based on its level of risk. Approval requirements should be documented to ensure that employees obtain approvals in all situations where management has decided they are necessary.

2.3.2 Internal audits and financial performance

Internal audit is a valuable instrument for management in processing development geared towards improving financial performance (Esther, *et al*, 2021). Internal auditors assist to govern the microfinance institution more effectively and efficiently to enhance the shareholders' wealth. In conclusion, (Penn & Pennix, 2017) vindicated that the substance of successful internal audit is connected with exceeding managerial performance.

According to Issaias *et al*, (2021) internal audit may result to improved financial performance through strict adherence to its auditing aspects. Internal audit standards will lead to improve as a result of auditors carrying out the functions within the criteria approved, being professional and objective for risk management (Esther, *et al,* 2021). Through independence of internal auditors, financial performance can be improved since the auditors are independent to from the activities which they evaluate and must likewise be independent from the routine internal processes and perform their activities and impartially without conflict of interest.

Internal audits include hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools. Physical counting can reveal well-hidden discrepancies in account balances by bypassing electronic records altogether. Counting cash in sales outlets can be done daily or even several times per day. Larger projects, such as hand counting inventory, should be performed less frequently, perhaps on an annual or quarterly basis (Institute of Internal auditors, Report 2018).

H_{01}: *Internal control systems do not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District.*

2.4 Cash flow Management and Financial Performance

Cash Flow (CF) is the increase or decrease in the amount of money generated by a microfinance institution (Beisland et al., 2017). Weber, (2018) argues that cash flow describes the amount of cash (currency) that is generated by a financial institution or spent in a given time period. There are many types of CF, with various important uses for running a financial institution and performing financial analysis. The Microfinance continuity depends on loan recovery plan and shareholder capital. Cash is more like an organization's engine on which the company runs. If cash management is not up to the standard required, then the microfinance institution is likely to go bankrupt. Moreover, high profits do not in any way mean that the business enterprise is liquid. Cash flow analysis gives an insight into the core business activities and management decisions on which the company's profitability and sustainability linger. For companies, often profit is the overriding objective but if cash is not sufficient, the company's growth will slump and there may be a threat to its survival. Hence, cash flow is absolutely critical for the existence and survival of an organization and a company generating healthy cash balances will invariably have high profitability. According to a study performed by Jessie Hagen of U.S. Bank as cited by Afrifa (2016), 82 percent of financial institutions fail because of poor management of cash flow. If a financial institution constantly spends more than it earns, then there is a cash flow problem. This is all caused by poor loan recovery plan and limited shareholder capital. Riley (2012) explains the relationship between cash flow and growth of firms by postulating that firms grow in order to achieve their objectives, including increasing sales, cash flow and maximizing profits or increasing market share. The growth of every firm is motivated by different objectives.

2.4.1 Cash inflows and financial performance

Cash inflows refer to all such activities that result in the business getting cash coming into the business. (Afrifa, 2016). Cash in SACCOs usually takes two direction and are – inflow and outflow. The difference between these two concepts results in cash flow (Danson *et al*, 2017). Cash inflows in management of liquid resources include withdrawals from short term deposits not qualifying as cash and disposal or redemption of any other investments held as liquid resources (Beisland et al, 2017). Cash coming into the business is referred to as cash inflows. Cash flow is the difference in amount of cash available at the beginning of a period referred in accounting terms as opening balance and the amount at the end of that period referred as closing balance. The expression cash flow was coined in the late 1950s (Mason, 1961). Cash flow is of vital importance to the health of a business. Many businesses may continue to trade in the short term to medium term even if they are making a loss. This is possible if they can, for example, delay paying creditors and/or have enough money to pay variable costs. However, no business can survive long without enough cash to meet its immediate needs.

2.4.2 Cash outflows and financial performance

Cash outflow is referred to as the process of movement of cash outside the business, which is due to the various liabilities that a business has during its course of operations. (Danson *et al*, 2017). The various ways in which cash would leave the business can be in the form of staff salaries, office rents, electricity bills or towards dividend payment to the shareholders. In principle, it functions in the exact opposite way of cash inflows, which is movement of cash into the business. The balance of cash inflow and outflow determines the stability of a business. It is a general rule of thumb that any business which has a higher cash outflow as compared to its cash inflow is considered to be unhealthy or has a higher chance of getting bankrupt

Recent studies try to gain a better understanding of these empirical findings by focusing on the causes of cash flow sensitivity. In investigating the investment cash flow sensitivity of UK listed firms, (Gogo et al, 2017) confirm that investment is strongly cash flow sensitive. They find that the observed cash flow sensitivity results mainly from the agency cost of free cash flow. Danson *et al,* (2017) free cash flow hypothesis implies a positive relationship between cash flow and investment. In particular, the asymmetric information problem of Mehtap, (2016). suggests that firms may suffer from under investment when the acquisition of external financing is costly. In that case, investment outlays will depend on the availability of internally generated resources, resulting in positive investment-cash flow sensitivity

H_{02}: *Cash flow management does not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District*.

2.5 Working Capital and Financial Performance

Working capital management focuses on promoting satisfying liquidity, profitability and shareholders' value (Kwenda, 2017). Moodley *et al*, (2017) opine that working capital management is a crucial element in determining the financial performance of an organization. He pended that it is a concept that ensures the ability of the firm to fund the difference between short-term assets and short-term liabilities. Working capital refers to management of current assets and current liabilities. Ali et al, (2016) asserts that working capital management is crucial in manufacturing firm since part of their major assets is composed of current assets, as directly affect the profitability and liquidity of firm (Achode et al, 2016). An improper management of component of working capital that is, account receivables, account payables, and inventories will result to the difficulties in firm's continued operation and however will also affect the market value of such firm (Adam et al, 2017). Morara, (2021) stated that working capital is regarded as the result of the time lag between the expenditure for the purchases of raw material and the collection for the sale of the finished goods. And its management can have a significant effect on both liquidity and profitability of the company (Louw *et al*, 2016).

Mabandla, (2018) Investigated working capital management and firm profitability. Empirical Evidence from manufacturing and construction firms listed on Nairobi securities Exchange, Kenya. The challenge of the study was to find out the relationship between working capital management and profitability. The study employed a balanced panel data of five manufacturing and construction firms each which are listed on the Nairobi securities exchange (NSE). Pearson's correlation and ordinary least squares regression models were used. The study covers a period of 10 years that is 2013 – 2012.The study find out that a negative relationship exists between profitability and number of days accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of days payable. According to the study, financial leverage, sales growth, current ratio and firm size have significant effect on the firm's profitability. The researchers concluded that firms can create value for their shareholders by reducing the number of day's account receivable and by increasing their inventories to a reasonable level.

Aravind, (2016) carried out a study on working capital management and financial performance of manufacturing sectors in Sri Lanka. The major purpose was to investigate the relationship between working capital management and financial performance of listed manufacturing firms in Sri Linka. The study covered a six years period between 2008 – 2011. Return on assets and return on equity were used as performance measures whereas cash conversion cycle, current assets to total asset and current liabilities to total assets were used as working capital management measures. The study employed correlation and regression analysis models for analysis and the result of the analysis revealed that there is no significant relationship between cash conversion cycle and performance measures and hence the study concludes that, manufacturing firms in Sri Linka follow conservative working capital management policy.

Al-Abass and, Subhi. (2018) studied working capital management, firms' performance and market valuation in Nigeria. The focus of this study was to examine the impact of working capital management on firms' performance and market value of firms in Nigeria. A sample of fifty-four non-financial quoted firms in Nigeria listed on the Nigeria stock exchange was selected for the period 1995 – 2009. The data for the study was sourced from annual reports of the sample firm for the period under review. Regression model was used for analysis and the result of the analysis revealed that significant negative relationship exists between cash conversion cycle and market valuation and firms' performance in Nigeria. The findings also confirmed that there is a significant relationship between market valuations; profitability and working capital component the study recommend that Nigeria firms should ensure adequate management of working capital especially cash conversion cycle components of account receivables, account payables and inventories, as efficiency working capital management is expected to contribute positively to firms' market value.

Kasozi, (2017) Investigated working capital management and corporate performance of manufacturing sector in Pakistan. The major challenge was to evaluate the relationship between working capital management and profitability of manufacturing companies in Pakistan. The study covered the period 1998 – 2007. Balanced panel data of 2014 manufacturing firms was used which are listed in Karachi stock exchange firms.

Dhole et al, (2019) investigated the influence of working capital management on corporate profitability. The problem of the study was to find if cash collection period influences firm profitability. The study covered 30 firms listed in Nairobi Stock Exchange for the period 1993 – 2008. The tool for analysis was parted and the fixed effects regression model. The findings revealed that a highly significant negative relationship exist between the time it takes for firms to collect cash from their customers and profitability. According to him, more profitable firms take the shortest time for cash collection but positive significant relationship exists between inventory conversion period and profitability. The study concludes that the longer a firm takes to pay its creditors, the more profitable it is for them.

Ali, (2021) carried out a study on the relationship between capital management and profitability. The study covered 88 American first listed on New York stock exchange for a period 2005 – 2007. The tool for analysis was Pearson Bivariate correlation analysis and weighted least squares regression model. The focus was to find out the relationship between working capital management and profitability. The study found that there exists a significant relationship between the cash conversion cycle and profitability measured through gross operating profit.

2.5.1 Availability of Cash and Financial Performance

According to Badakhshan *et al*, (2020), cash is much more than just one element of working capital. As the medium of exchange and store of value, cash provides the linkage between all financial aspects of the firm. More specifically it links short-and long-term financing decisions with one another, with decisions involving investment both in fixed assets and working capital. The term cash refers to the most liquid of assets, including demand deposits, money market accounts and currency holdings. Borg and Jessica, (2021) observed that cash and marketable securities are the most liquid of the company's assets. Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organization.

According to Chen (2017), positions on the motive for holding cash are merely transaction, precautionary and speculative motives. Companies hold cash in order to bridge the interval between the time of incurring business cost and that of the receipt of the sale-proceeds. In other words, companies hold a certain amount of cash in order to meet the regular expenses of their activity. Therefore, the higher the firm's ability to schedule its cash flows (depending on their predictability), the weaker the transactions-motive for holding cash would be. The transaction motive illustrates the cash holding of firms and therefore more applicable to SMEs. Deloitte, (2020) stated that companies need a cash reserve in order to balance short term cash inflows and outflows since these are not perfectly matched. This they referred to as the transactions motive for holding cash, where the approximate size of the cash can be estimated by forecasting cash inflows and outflows and by preparing cash budgets. In addition to the cash reserve held for day-to-day operational needs, cash may be built up to meet significant anticipated cash outflows, for example arising from an investment project or the redemption of debt.

Gupta (2020) claimed that companies do not hold cash for this kind of speculative purpose and can be assumed that this estimation is valid especially for SMEs which usually do not have the resources to make such complex financial decisions. The key elements of cash management are cash forecasting, balances management, administration of cash receipts and disbursements, and internal control (i.e. bank reconciliation) (Deloitte, 2020). All the above is consolidated into what is referred to in finance language as the cash budget. Badakhshan *et al*, (2020), have identified three basic components of cash management thus, cash forecasting practices, cash surplus investment practices and cash control practices.

A study by Michele and, Sagner (2021) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agreed with the finding by Baumol, (2019) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by Ross et al. (2011) that reducing the time cash is tied up in the operating cycle improves a business's profitability and market value furthers the significance of efficient cash management practices in improving business performance.

Janaki, (2016) also attempted to investigate the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Using a descriptive cross-sectional design, their findings showed a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle and all of its components. This means that as the cash conversion cycle increases, it will lead to declining of profitability of a firm. Therefore, the managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level.

2.5.2 Purchasing Power and Financial Performance

Purchasing power is the ability of people as consumers to buy goods or services needed. The purchasing power of the people is indicated by an increase or decrease, where purchasing power increases if it is higher than the previous period. In contrast, the purchasing power decreases, which is indicated by a higher purchasing power of the people than in the previous period (Desfiandi *et al,* 2017). Purchasing power is defined as a function of mutual dependence of partners on contributions, capabilities, and activities of the other partner (Al-Gasaymeh and Kasem, 2016). To understand purchasing power, the factors that give rise to higher or lower power should be first identified (Abdalmajeed and Oudat, M. (2019). Saleh *et al,* (2020) classified factors influencing dependence in three groups: the importance of the resource, the control over the resource, and the discretion over resource allocation.

Wang and Iovu, (2017) investigate sources of power from the perspective of network structures and stemming from resources, interconnections and organization position. They suggest capabilities and resources of organizations determine their roles and power. This view is shared among RDT scholars. In addition, Agussalim *et al,* (2020) makes a distinction between physical and social powers, connecting the latter to intangible assets and the former on tangible objects. Among intangible assets, fall sources such as legitimacy and brand.

H_{03}: *Proper working capital does not significantly affect financial performance of Lyamujungu Cooperative Services limited in Kabale District*

2.4.1. Return on Assets

Return on assets is a profitability ratio that provides how much profit a company can generate from its assets. In other words, return on assets (ROA) measures how efficient a company's management is in earning a profit from their economic resources or assets on their balance sheet. Return on assets (ROA) is a measure of how efficiently a company uses the assets it owns to generate profits.

ROA (Return on Assets) measures the company's ability to generate net income based on certain asset levels or ratios that show how capable the company uses existing assets to create profits or profits. According to Aletheari et al, (2016), Return on Assets is a comparison between net income after tax (Net Income after Tax) to total assets (average total assets (assets) obtained from the average total assets at the beginning of the year and the end of the year). Return on Assets (ROA) is one indicator of the company's success in generating profits so that the higher the profitability, the higher the ability to generate profits for the company. The company's ability to generate profits in operating activities focuses on assessing company performance. Profit is an indicator of the company's ability to fulfill obligations to creditors and investors and is a part of the company's value creation process related to the company's prospects in the future. Return on Assets (ROA) can measure the company's ability to generate profits by using the total assets owned by the company after adjusting for the costs used to fund these assets, such as development costs and employee management in improving the intellectual property. (Amelia and Sunarsi, 2020).

According to Akram *et al*, (2020), return on assets (ROA) measures the efficiency with which a company's management generates profits from all of the assets shown on its balance sheet. The higher the number, the more effectively a company's management manages its balance sheet to generate profits. The ROA is shown as a percentage. How much profit a SACCO can generate from its assets is shown by the profitability ratio, also known as return on assets. Agustina and Kennedy (2016) noted that the higher the ROA percentage, which is displayed as a percentage, the better a SACCO's management is at controlling its financial sheet. Return on assets (ROA) measures how effectively a SACCO's management generates revenue from the assets or financial resources that appear on its balance sheet to produce profits.

Assets that are used to produce profit are often more numerous in SACCOs with a low ROA than they are in SACCOs with a high ROA. An asset-intensive SACCO's lower ROA could seem worrying in comparison to an unrelated SACCO's greater ROA with less assets and similar earnings. ROA is ideal when comparing similar SACCO's business. When evaluating a company's profitability across several quarters and years, as well as when comparing it to similar companies, calculating its ROA can be useful. To assess a company's financial success, however, no single financial ratio should be employed (Tangngisalu *et al*, 2020). However, there is a gap where the researchers have not demonstrated how the ROA of the SACCO can be computed, which this study will explore and discover the collective solution that will assist the SACCOs to improve their financial performance.

The long-term route of ROA is the best financial scorecard of a company's health and an indicator of how its decisions play out. Understanding the trajectory provides a foundation for taking a longer-term perspective that can help companies shape winning strategies (Akram et al, 2020). Despite a great deal of financial soundness indicators, return on assets depicts the map for decision making in investment and management processes. Return reflects the true and the most reliable stance and scenario of financial health of the company by covering two key financial stability indicators: assets and profit. Asset structure provides a foundation and prerequisite for the presence of company, while profit level shows to what extent the company is operating. Combination of both stability-reflecting indicators how company is working out the invested capital by bearing profit.

Hagel et al. (2013) found that ROA is not the best-fit measure for assessing the financial stability of the company in long-term, but it is effective in monitoring the company's performance in the short term. They proved that ROA is vulnerable to changes in financial condition of a company, especially changes in revenues from sales, income and assets.

Lassala, Apetrei and Sapina (2017) examined the impact of financial performance of companies on sustainability through financial ratio analysis. Their studies suggested that return on assets is an important indicator of sustainability for companies of specific industries.

The study by Youn and Gu (2010) attempted to assess the impact of return on assets on the performance of lodging firms in Korea. Their evaluations showed that operational cost and debts had the most considerable effect in return on assets.

Previous studies examining the effect of current assets on return on assets were conducted by Damayanti & Chaerudin (2021), Angelina *et al,* (2020), Napitupulu *et a,l* (2019), Utama (2016) found that current assets have a positive and significant effect on return on assets. While the results of research from Hutagaol & Sinabutar (2021), Hatami & Hendratno (2020), Himawan & Sukma (2019), Ginting (2018) finds that current assets have a positive and insignificant effect on return on assets. Different results were also shown by research from Damayanti (2019), which found that current assets had a negative and insignificant effect on return on assets. Previous research on the effect of total asset turnover on return on assets was conducted by Sari & Aulia (2021), Himawan & Sukma (2019), Hasibuan (2019), shows results that total asset turnover has a positive and significant effect on return on assets. At the same time, the research results from Hatami & Hendratno (2020), Damayanti (2019) found that total asset turnover had a negative and significant effect on financial performance. In the other hand, different results were also shown in the study from Zaman (2021), Angelina (2020), Napitupulu (2019), Ginting (2018), Faizal (2016), which shows that total asset turnover has a positive and insignificant effect on return on assets. Previous research on the effect of debt to asset ratio on return on assets was conducted by Zarkasyi (2021), Sari & Aulia (2021) show the results that the debt to asset ratio has a positive and significant effect on return on assets. While the results of research from Zaman (2021), Wulandari (2021), Main (2016), Faizal (2016) shows the results that the debt to asset ratio has a positive and insignificant effect on return on assets. Previous research on the effect of debt to equity ratio on return on assets was carried out by Damayanti & Chaerudin (2021),Hatami & Hendratno (2020), Utama (2016), showed the results that the debt to equity ratio had a positive and significant effect on return on assets. Research from Hutagaol & Sinabutar (2021), Himawan & Sukma (2019), Hasibuan (2019) shows that the debt to equity ratio has a negative and significant effect on return on assets, while research results from Zarkasyi (2021), Angelina (2020), Napitupulu (2019), Ginting (2018), Faizal (2016) showed the results that the debt to equity ratio had a positive and insignificant effect on return on assets.

2.4.2 Profitability

Profitability is the ability of a SACCO to generate profit from the regular business operation for a certain period of time (Ruslan, Pahlevi, Alam, & Nohong, 2019). The profitability performance is measured by the return on assets (ROA) of the SACCO. It indicates how the bank is profitable in relation to the available assets. Profitability also shows the level of efficiency and effectiveness of bank management in generating profit. The greater ROA implies the bank is gaining more profits and a higher contribution to the economy of a country Adiatmayani and Panji (2021).

Herdhayinta & Supriyono (2019), on the study conducted on Bank profitability in Indonesia, they state that Profitability of a microfinance institution is determined by analyzing the expenses and the income of the institution. Income is money that is obtained from share capital and interest while expenses are costs incurred by the microfinance institution when conducting its operation. Some measures that are commonly used by the microfinance institution to determine profitability include; Return on Assets (ROA) and Return on Equity (ROE) (Tangngisalu *et al,* 2020). ROA is a measure of how profitable the microfinance institution is relative to total assets. While ROE is computed by dividing net income which is returned as a proportion of shareholder's equity.

However, to determine the profitability of a microfinance institution, the institution relies on both internal and external factors. Such factors include the size of the microfinance, capital adequacy, credit risk provisioning, and efficiency in the management of operating expenses. The external determinants include macroeconomic and industry-specific factors which reflect the economic, legal and business orientation within the context where the financial institution operates. Tangngisalu *et al,* (2020), posits that larger microfinance institutions are more advantageous because of economies of scale that enable them to be efficient in financial services. This gives them power over their shareholders by setting interest rates below other microfinance institutions in the market. Working capital strength of a financial lending institution is of paramount importance in affecting its profitability. A well-capitalized financial lending institution is perceived to be of lower risk and such an advantage will be translated into higher profitability (Domanovic *et al.*, 2018) and (Alzoubi, 2018) working capital strength is used to capture the fact that larger financial lending institution are better placed than smaller financial lending institution in harnessing economies of scale in transactions to the plain effect that they will tend to enjoy a higher level of profits. Consequently, a positive relationship is expected between working capital strength and profits. For instance, Mulinge, (2019) investigated the internal factors that have an effect on profitability in Saudi and Jordanian banks and found that there is a positive correlation between profitability measured by ROA of Saudi and Jordanian banks with working capital indicators, as well as there is a negative correlation with other liquidity indicators between profitability measured by ROA of Saudi and Jordanian banks; thus recommended as similar study to be carried out in MFIs (Saymeh *et al,* 2019).

2.4.3 Loan portfolio

According to the study conducted by Danstun & Harun (2019), in their findings they state that, Loan portfolio is critical in Microfinance Institutions as it gives an insight in the overall loan performance. However, according to Agasha *et al.* (2020), loan portfolio improves MFIs' operational efficiency, profitability, and sustainability. Bananuka *et al,* (2019), the growth and decline of a microfinance institution is attributed to several factors such as capital structure, cost of capital, credit risk management, and quality of Microfinance Institution clientele. Despite of the achievement made by loan portfolio on a microfinance institution, Bananuka still emphasizes that less has been reported on financial management practices and financial performance of microfinance institutions.

As indicated by George et al (2013) whose design was to examine of loan portfolio administration on association gainfulness instance of Commercial Banks in Kenya. The sample was gotten to by utilization of both stratified and simple random sampling. The study utilized multiple regression model to discover the connection between the determinants and benefit. Measurable bundle for sociologies (SPSS) was utilized to break down essential information while the SAS v.6 of 2009 was utilized to investigate the auxiliary information accumulated from the banks. The essential information discoveries show that the four determinants of gainfulness were in reality genuine. The loan portfolio impacted the gainfulness of the banks. Non-performing credits and the new advances had distinctive effect on the productivity of the bank. The interest cost was evaluated exceptionally as a factor that attempts to lessen the benefits. The organization costs particularly pay overheads were absolutely faulted for decreasing productivity. As indicated by Kisala (2014) whose general point was to establish the viability of loan portfolio management in rural SACCOS in Tanzania. The information investigation was finished utilizing multivariate regression model, illustrative and subjective strategies. The information for this study was gathered toward the finish of May 2013. The outcomes from the regression investigation uncover that the nature of advance portfolio was decidedly affected by the loan measure while the impact of sexual orientation and area of the borrowers were not critical. The discoveries additionally uncovered that change of the cost of horticultural create undermined the nature of loan portfolio, upgrade the reimbursement of late advances and overhaul the advance classes and development so as to enhance the nature of the advance portfolio in the SACCOS. The study led by Karekaho, (2009) whose reason for existing was to build up the connection between loan portfolio management and execution of

Microfinance Institutions (MFIs) in Wakiso locale, Uganda. The study was directed as a cross sectional study including a logical outline, simple random sampling utilized. The discoveries demonstrate that there were noteworthy connections between advance portfolio arranging, customer screening, portfolio control and the execution of the MFIs. However, this study only measure performance using financial indicators, therefore this paper proposes and a study on performance in two angles both financial and non-financial performance as alluded in the balances cord card theory. Sufi Faizan Ahmed, Qaisar Ali Malik (2015) whose primary point was to assess the impact of credit risk management hones on loan execution, empirical study of Micro Finance Banks of Pakistan. For measurable assessment, the essential information in cross sectional shape was thought about. The information was gathered from the administrative level credit risk administration staff of microfinance banking sector. Multiple regression model study was utilized for experimental relationship assessment of the credit risk management rehearses on the execution of advance. The consequences of the study demonstrated that credit terms and customer appraisal had positive and noteworthy effect on the advance execution, while the Collection policy and Credit hazard control had positive however irrelevant effect on Loan execution; this study was centered on financial indicators

2.3. Research gap

Studies done in the global and local context have exhibited contextual, conceptual and methodological gaps (Munyua 2016; Mwangi *et al*, 2016). All the above said studies were done in other countries and some done in other parts of Uganda but not in Lyamujungu Cooperative Financial Services Limited. However, studies did not clearly state the financial management practices and performance of microfinance institutions. Considering few performance practices used to measure the performance of financial management practices as used in the regression model, which resulted to a methodological gap. Current study proposes a model of financial management practices (internal control system, cash flow management and working capital) and how they influence microfinance institution’s performance in Lyamujungu Corporative Financial Services Limited.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0.Introduction

This chapter presents the research methods that were employed to achieve the objectives of this study. It shows the research design, the study population, sampling and sample size, sampling procedures, research instruments, validity and reliability of instruments, data gathering procedures, data analysis ethical considerations and limitations to the study.

3.1. Research Design

A research design also called a research strategy, is a plan to answer a set of questions (Abdipour *et al,* 2016). It is a framework that includes the methods and procedures to collect, analyze, and interpret data. In other words, the research design describes how the researcher will investigate the central problem of the research and is, thus part of the research proposal.

The study used a cross-sectional survey design that is analytical and descriptive in nature involving both qualitative and quantitative methods. The study used this research design because it involves the collection of data from respondents at one point in time and also because of the short time available in which the study was conducted. The study involved the description of respondents from whom the data was collected. Respondents described in terms of their sex, education level, occupation and financial status.

Qualitative approach was used to obtain information from the key informants. Key informants' interviews are qualitative in-depth interviews with people who know what is going Lyamujungu Cooperative financial services limited in regard to financial management practices and financial performance of the (LCSL)

Key informants were interviewed and the researcher relied on her own judgment when choosing members of population to participate in the study. Members of the population were selected based on one's knowledge and understanding on financial management practices and financial performance. The data that was collected through qualitative methods was used to enrich the quantitative data collected using the questionnaires.

Quantitative approaches in this study were in a semi-structured questionnaire with both open and closed questions. The questionnaire was to be administered to randomly selected respondents to obtain data which was coded and entered in a data analysis package to obtain numbers in form of frequencies and percentages for most of variables.

3.2.Study Population

The population of the study consisted staff of Lyamujungu Cooperative Financial Services Limited and selected members who subscribe to the LCFSL. Currently Lyamujungu SACCO has a membership of 26,368 and 150 staff.

Study population table 1.

Respondents	Number	Sample Size	Sampling Techniques
Manager	1	1	Purposive
Accountant	1	1	Purposive
Loans officer	1	1	Purposive
Internal Auditor	1	1	Purposive
Banking Assistants	2	2	Purposive
Board Members	5	5	Purposive
Shareholders	109	92	Simple random
Supervisory Committees	3	3	Purposive
Advisory Committees	3	3	Purposive
Total	150	109	Purposive

3.3.Sampling and Sample size selection

The study population for this study involved selected staff and members from Lyamujungu SACCO from all branches these included 150 respondents.

Considering a population of a total number of 109 respondents were selected using the Yamane (1967:886) provides a simplified formula to calculate sample sizes.

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

Where;

$nr = is\ the\ desired\ sample\ size,$

$N\ is\ the\ total\ number\ of\ staff\ selected\ from\ all\ \ the\ branches\ population, N = 150$

$e\ is\ the\ allowable\ error\ , taken\ as$ 5% or

$e = 0.05$

By substituting;

$$n = \frac{150}{1 + 150(0.05)^2} = \frac{150}{1.375} = 109$$

Therefore, the study targeted a sample of 109 respondents.

3.3.1. Simple Random Sampling

Random sampling is a quantitative sampling technique which gives every member an equal chance of being selected. According to Etikan and Babtope, (2019), random sampling minimizes bias and every member stands an equal chance of being selected. The simple random sampling technique will be used to sample the staff especially those in accounting and finance, and selected members who subscribe to LCFSL. The researcher will seek for permission from the management of the financial institution to access records from both membership book and staff book to view a list of all members and staff at the financial institution. It's from these two books that the researcher will select members from the population for the study.

3.3.1. Purposive Sampling

The study adopted purposive sampling techniques to sample the top administrators at the Lyamujungu Cooperative Financial Services limited who were to be selected from the main branch included; the General Manager, Branch manager, the selected delegate members, Human Resource Manager and former chairpersons and current chairperson of the stated the financial institution. The researcher chose the top administrators at the financial institution based on the factor that they are most knowledgeable about the current state of the financial institution. In choosing the sample, the researcher based on the level of education, and experience. According to Elfil and Negida, (2017), Interpretive description purposive sampling

Purposive sampling is an accepted and often used initial sampling strategy in ID methodology as it allows settings and people to be recruited based on their expected contribution to the study enables a researcher choose participants of his own interest based on education and experience.

3.4. Data sources:

Primary and secondary data sources were used in the study. The primary source was obtained with the use of the self-Administered Questionnaire,

Primary data was collected from the staff and members of Lyamujungu cooperative Financial Services Ltd from all the branches.

Questionnaires were prepared and administered to the staff that is the General Manager, the Accountant, Internal Auditor, Credit Loans officers and Banking Assistants.

3.5. Research Instruments

A questionnaire was the major instrument which was used for data collection. The questionnaire was preferred for this study because it enabled the research reach a large number of respondents with in as short time, thus made it easier to relevant information. First section was to collect data on gender, age, educational level and marital status of respondents and the second section was on position and period spent working with in Lyamujungu SACCO and the third section was on the effects of internal controls and financial performance, cash flow management, working capital and the qualitative set of questionnaires. All questions were measured on 5-point Likert scale ranging from strongly agree (5) to strongly disagree (1). The questionnaire contained close-ended questions to collect quantifiable data relevant precise and effective correlation of the research variables.

3.6.Validity and Reliability of the Instruments

3.6.1. Validity of instruments

According to Fabrigar *et al*, (2020), the extent to which the data collecting tool gathers data that have the trait or attribute the researcher wants to measure is referred to as validity. To ensure validity, the research instrument covered all the dimensions of the phenomenon under study as clarified in the conceptual framework.

The researcher ensured the validity of the instrument by using research supervisors who checked all the items which was constructed to achieve the objectives of the study. Copies of questionnaires were given to my supervisors to judge the validity of questions according to objectives and a content validity index (CVI) was computed using the following formula:

Table 1: Content Validity Index for the Questionnaires

Variable	Description	No. of items	CVI
Dependent variable	Financial Performance	7	0.8
Independent Variable	Internal Control Systems	10	0.79
	Cash Flow Management	8	0.81
	Working capital Management	8	0.9

According to Mohajan *et al.* (2018), content validity indices are as in the table above;

$$CVI = \frac{\text{no of items regarded as relevant by the judge (n)}}{\text{Total no of items (N)}}$$

3.6.2. Reliability of the instruments.

Reliability tests the extent to which the measuring instruments produces consistent scores when the same groups of individuals are repeatedly measured under the same conditions. Reliability of the research instruments was also tested through a pilot study that was conducted among respondents purposively and simple randomly chosen from the target area

Questionnaires were pre- tested using selected staff from the Kabula SACCO headquarters in Muyumbu Kyanamira Sub- County, Kabale District. They were requested to check the questionnaire on the following aspects: question construction, language, clarity and comprehensiveness, established using Cronbach's Alpha coefficient (1951). The scores are found at 0.70 using Statistic Package for Social Scientists (SPSS) version 20 and this indicated that the instruments are reliable and better for use.

Table 2: Content Reliability indices for the questionnaire

Variable	Description	No. of items	CVI
Dependent variable	Financial Performance	6	0.7
Independent Variable	Internal Control Systems	5	0.78
	Cash Flow Management	7	0.8
	Working capital Management	6	0.83

3.7.Data collection procedure

The researcher sought the permission from the Manager Lyamujungu SACCO, the authority to access the required data for the specified period. The panel data was extracted in excel format for easy arrangement and analysis. Questionnaires were administered to the staff of Lyamujungu SACCO from different departments concerned with financial management practices as they were well conversant with that knowledge as well as financial performance to this SACCO is concerned.

3.8 Data Processing and Analysis

The data was organized and financial ratios computed using Excel program in order to obtain the study variables. The panel data collected was analyzed quantitatively using Pearson Rank Correlation Coefficient. Data from questionnaires was summarized, using frequencies and percentages.

3.9. Ethical considerations.

After the proposal defense, the researcher sought for letter of introduction from Kabale University allowing her to proceed to collect data and prepare the report thereafter. A letter of introduction was attached. The researcher presented this letter to the SACCO branch Manager where the study was conducted. The questionnaires were administered to SACCO clients by the researcher and her research assistants. With regards to face-to-face interviews, the researcher contacted the key informants about and thereafter requested for their consent to participate in study. Emphasis was made to both the research assistants and the respondents that the study and its findings were solely a requirement going to be conducted in partial fulfillment for the award of Master's degree of Business administration of Kabale University and would not cause any harm to them.

3.10.Limitations of the Study

The researcher faced a response bias especially with respondents who did not mind about SACCO operations. The researcher and the research assistants were trained on how to approach respondents, create a rapport which solved the problem. However, this was handled by getting assistance from SACCO manager to convince the respondents by highlighting the importance of research to the SACCO operations.

The researcher also faced a challenge of insufficient funds to meet transport, printing of research tools and reaching all planned respondents. However, this was handled by borrowing money from friends.

The researcher also faced a challenge in weather changes that delayed the process of dissemination of questionnaires and during data collection. However, this was handled by buying rain protective gears mainly umbrella, gumboots and rain coat.

3.11.Dissemination of Results

The final results of the study will be disseminated by giving copies to the relevant Authorities which include Lyamujungu Cooperative Financial Services Ltd where the study will be conducted so that the results can confirm to the stake holders on how best to improve on the status of coverage areas during the study.

The results will also be disseminated to Kabale University through providing final copies of the report that will also be submitted to the department of Business Administration of Kabale University for further dissemination in the library.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0.Introduction

The study was about financial management practices and financial performance of microfinance institutions in Uganda: A Case of Lyamujungu cooperative finance limited, Kabale district Kabale district. The study findings were presented and analyzed chronologically in accordance to the specific objectives as were formulated in chapter one of this report. This was done by SPSS v20.0 which was also used to generate frequency tables and compute correlations. This chapter therefore involved presentation of issues from the field relating to the effect of internal control systems on financial performance of Lyamujungu cooperative finance limited Kabale district, the effect of cash flow management on financial performance of Lyamujungu cooperative finance limited Kabale district, the effect of working capital management on financial performance of Lyamujungu cooperative finance limited Kabale district.

4.1. Response rate

The current study targeted a sample of 92 respondents who constituted mostly shareholders. However, 89 shareholders had time t respond to the researcher instrument. This translated in response rate of 96.7%, according to the formula below.

$$Reponse\ Rate = \frac{Returned\ Questionnaires}{Questionnaires\ given\ out} = \frac{89}{92} * 100 = 96.7\%$$

The response rate 96.7% is acceptable, according to Mugenda and Mugenda (2003) who asserts that a response rate of 50% and above is appropriate for qualitative data while a response rate of 70% and above is appropriate for quantitative data. Accordingly, this response rate is adequate for drawing an inference.

4.2.Demographic of the respondents

The researcher here examined the background variables about the respondent which included the age of the respondent, gender of respondent in years, marital Status, highest level of education, time spent and position held in the organization. The results on the background information of the respondents were indicated as follows:

Table 4.2.1: **Gender of the respondents**

Gender	Frequency	Percentage
Male	60	55
Female	49	45
Total	109	100.0

Source: Primary data, 2022

As shown in the table 4.3.1 above, 60(55%) of the respondents were males while 49(45%) of the respondents were females. This indicates that male employees dominate in Lyamujungu cooperative. The findings indicate that Lyamujungu employs more males than female employees.

Table 4.2.2**: Age of the respondents**

Age	Frequency	Percentage (%)
18-27 years	9	22.5
28-37 years	16	40.0
38-47 years	9	22.5
48 & above	6	15.0
Total	**40**	**100.0**

Source: Primary data, 2022

As shown in table 4.3.2 above, majority of the respondents, 16(40.0%) were in the age bracket of 28-37 years, followed by 9(22.5%) who were in 18-27 years 9(22.5%), 38-47 years also 9(25.5%) and lastly 6(15.0%) who were 48 & above. None of the respondents were below 18 years as this is below the minimum standard age specified in the employment Act where it is recommended that no person below 18 years should be employed as they are still children. The findings therefore indicate that most of the employees of Lyamujungu cooperative finance services are adults. This implies that most employees of the institution have prior experience, the capacity and capability of handling bank activities.

Table 4.2.3: **Education level of the respondents**

Education levels	Frequency	Valid Percent
Secondary	20	18.3
Certificate	35	32.1
Degree	33	30.3
Masters	21	19.3
Total	109	100.0

Source: Primary data, 2022

According to the responses in table 4.3.3 above concerning the respondent's level of education, it was revealed that most of the respondents 33(30.0%) had studied up to degree level, followed by 35(32.1%) for those who had certificates, then 21(19.3%) of the respondents who had studied masters and lastly least are 20(18.3%) had stopped at secondary level. The findings indicate that bachelor degree holders account for the highest proportion of employees in Lyamujungu cooperative finance limited, Kabale district. This implies that most employees of Lyamujungu cooperative finance limited are expected to possess adequate knowledge on the financial management practices towards financial performance.

Table 4.2.4: The Marital Status of the Respondent

Marital status	Frequency	Valid Percent
Single	23	21.1
Married	71	65.1
Widow	15	13.8
Total	109	100.0

Source: Primary data, 2022

As shown in the table 4.3.4 above, it is revealed that majority of the respondents totaling to 71(65.1%) were married, followed by 23(21.1%) who were single and 15(13.8%) who were widowed. This indicates that most of the employees of Lyamujungu cooperative finance limited Kabale district, Kabale district are married. This implies that Lyamujungu cooperative finance limited employs staff who are mature and more focused to work hard and fulfil family financial commitments hence improving financial performance**.**

Table 4.2.5: **Position held in the organization**

Department	**Frequency**	**Valid Percent**
Finance department	14	12.8
Loans department	31	28.4
Marketing department	41	37.6
Administrative	23	21.1
Total	109	100.0

Source: Primary data, 2022

As shown in table 4.3.5 above, majority of the respondents represented by 41(37.6%) were working in marketing department, 31(28.4%) were working in loans department 23(21.1%) were working in administrative department and 14(12.8%) of the respondents were in finance department. This implies that marketing staff dominated in Lyamujungu cooperative finance limited Kabale district. This implies that marketing staff are more engaged in marketing the products offered by the institution to different areas and thus contribute significantly to an increased growth in terms of loan portfolios, shareholdings that are key indicators of improved financial performance.

Table 4.2.6: The period spent working with the organization

Period	**Frequency**	**Percentage**
1-4 years	65	59.6
5-9 years	34	31.2
11-14 years	10	9.2
Total	109	100.0

Source: Primary data, 2022

The study findings from table 4.3.6 above, revealed that majority of the respondents, 65(59.6%) of the respondents who had spent 1-4 years, then 34(31.2%) who had spent 5-10 years and 10(9.2%) for those who had spent 11-10 years. This indicates that most employees of Lyamujungu cooperative finance limited had spent quite a long time working with the institution. This implies that they have gained good experience in financial management practices that enhances performance.

4.3.Effect of internal controls on financial performance

The first objective was to examine the effect of internal control systems on the financial performance Lyamujungu Cooperative Services Limited in Kabale district. The researcher provided five (5) statements which the respondents were supposed to indicate their level of agreement with any of the statement by selecting and ticking on one scale on the Likert type where SA (5) =Strongly agree, A (4) = Agree, NS (3) = Not sure, SD (2) = Strongly disagree while D (1) = Disagree. The findings were presented in table 4.4.1 as follows.

Table 4.3.1: Internal control and Financial Performance

Variable list	**SA (5)**	**A (4)**	**NS (3)**	**D (2)**	**SD (1)**
Lyamujungu Cooperative Financial Services Limited segregates duties to ensure proper handling of institutions assets	58 (53.2%)	30 (27.5%)	0 (0.0%)	7 (6.4%)	14 (12.8%)
Lyamujungu Cooperative Financial Services Limited always ensures that cash is collected from debtors on the due date.	61 (56.0%)	27 (24.8%)	0 (0.0%)	7 (6.4%)	14 (12.8%)
Lyamujungu Cooperative Financial Services Limited only uses skilled accounting staff to do standard accounting works.	58 (53.2%)	22 (20.2%)	0 (0.0%)	15 (13.8%)	14 (12.8%)
It follows standard lending practices and issues loans only after recording relevant borrowers' details.	64 (58.7%)	16 (14.7%)	8 (7.3%)	14 (12.8%)	7 (6.4%)
Standardized documents such as modern accounting information systems (AIS)are used for financial transactions to maintain consistency in record keeping over time hence eliminating fraud amongst the employees by Lyamujungu Cooperative Financial Services Limited.	51 (46.8%)	22 (20.2%)	6 (5.5%)	16 (14.7%)	14 (12.8%)
My cooperative usually maintains proper accounts.	51 (46.8%)	21 (19.3%)	6 (5.5%)	15 (13.8%)	16 (14.7%)
Lyamujungu Cooperative Financial Services Limited maintains physical audits including hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools.	59 (54.1%)	13 (11.9%)	15 (13.8%)	8 (7.3%)	14 (12.8%)
Authorization and approval of financial transaction are being maintained by one person to avoid fraud at Lyamujungu. Cooperative Financial Services Limited.	59 (54.1%)	22 (20.2%)	14 (12.8%)	0 (0.0%)	14 (12.8%)

My cooperative maintains physical counting to reveal well-hidden discrepancies in account balances by bypassing electronic records altogether.	51 (46.8%)	14 (12.8%)	15 (13.8%)	8 (7.3%)	21 (19.3%)
Asset numbering is done to show location and protection of the assets.	51 (46.8%)	13 (11.9%)	23 (21.1%)	8 (7.3 %)	14 (12.8%)

Source: Primary data, 2022

According to the table 4.7 above, respondents whether the cooperative usually maintains proper accounts. The responses show that majority of the respondents 73(67%) agreed with the statement while 31(28.5%) disagreed with the statement and 6(5.5%) were not sure about the statement. This indicates that the cooperative usually maintains proper accounts that enable easy tracking daily operations and this improves financial performance. This was supported by the interview conducted by one who said:

"…maintaining proper accounts is an effective financial management practices that enhance financial performance. In Lyamujungu cooperative finance limited, we maintain books of accounts for proper decision making, track errors within the system, operate within the budget and this has enabled the institution to improve its financial performance using this strategy…''

Another statement sought respondents' opinions about whether the cooperative maintains physical counting to reveal well-hidden discrepancies in account balances by bypassing electronic records altogether. The findings on this statement show that majority of the respondents totaling to 65(59.6%) agreed while only 29(26.6%) of the respondents disagrees with the statement, 15(13.8%) of the respondents were not sure. This indicates that cooperative maintains physical counting to reveal well-hidden discrepancies in account balances by bypassing electronic records altogether.

The third statement sought to examine whether Asset numbering is done to show location and protection of the assets. The study findings on this statement revealed that majority of respondents agreed with the statement that majority of the respondents totaling 64(58.7%) agreed while 22(26.6%) disagreed with the statement and 23(21.1%) were not sure about the statement. This indicates that asset numbering is performed to show the location and protection of assets. During interviews, it was indeed confirmed that most cooperatives carry out asset numbering to enhance proper documentation and valuation of said assets.

Concerning the statement of whether Lyamujungu Cooperative Financial Services Limited maintains physical audits including hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools. Findings revealed that majority of the respondents totaling 72(66%) of the respondents agreed 22(20.1%) disagreed with the statement and 15(13.8%) were not sure about the statement about the statement. This indicates that Lyamujungu Cooperative Financial Services Limited maintains physical audits including hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools.

The study also sought for the respondents' opinion on whether Standardized documents such as modern accounting information systems (AIS) are used for financial transactions to maintain consistency in record keeping over time hence eliminating fraud amongst the employees by Lyamujungu Cooperative Financial Services Limited. On this statement, it was revealed that majority of the respondents 73(67%) agreed, 30(27.5%) disagreed with the statement and 6(5.5%) were not about the statement. This indicates that majority of respondents agreed with the statement that Standardized documents such as modern accounting information systems (AIS)are used in financial transactions to maintain consistency in record keeping over time and this eliminate fraud amongst the employees. During the interviews, it was also revealed that management of Lyamujungu cooperative finance limited uses documents like asset register, ledger cards, cash books and till sheets to document transactions. This is further explained in an interview:

"…*Most cooperatives document daily transactions using recognized documents like cash books to enable the completion of transaction. This helps the management to reduce on errors, fraud that usually result from use of unstandardized…*"

From the statistical analysis above, this study confirms that segregation of duties and timely collection of cash from debtors are the key internal control methods used in Lyamujungu SACCO. These internal control methods help in the effective handling of the assets in Lyamujungu SACCO. On a weaker note, however, the use of standardized documents as a key measure in controlling fraud amongst employees is least used. The study provides lean of accounting information systems in ensuring consistence in financial transactions and recording.

4.3.1. Testing of hypothesis on whether Proper Internal control systems have positive significance on financial performance of Micro Finance Institutions in Kabale District

From the results indicated in table 4.4.1 about the internal control systems and financial performance, further analysis was done using Pearson Rank Correlation Coefficient formula to see whether there is a significant relationship between internal controls and Financial Performance. This was established using SPSS Version 20 as shown below:

Table 4.3.2: Relationship between internal control systems and Financial Performance

		Internal control systems	Financial performance
Internal control systems	Pearson Correlation	1	.794**
	Sig. (2-tailed)		.000
	N	109	109
Financial performance	Pearson Correlation	.794**	1
	Sig. (2-tailed)	.000	
	N	109	109

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

Table 4.8 above presents the correlation results between internal control systems and Financial Performance. The study findings revealed that Pearson Rank Correlation (R = .794**), sig. value $p<0.01$ and sample size (n=109). Basing on the above results, the study reveals that there is a statistically strong positive significant relationship between internal control systems and Financial Performance. Implicitly, when MFIs in Kabale vary their internal control systems, a positive variation in their financial performance is likely to be registered.

The findings indicate that internal control systems account for 63.0% of the variations in the financial performance of MFIs in Kabale district, based on (R Square = .630). Implicitly, every single internal control system introduced in these financial institutions explains about 63% of the institution's financial performance at any given time. Drawing from the square of the correlation coefficient between internal control systems and performance, which is statistically significant, this study accepted the null hypothesis. There is a statistically significant effect of internal control systems on financial performance of MFIs in Kabale district.

4.4.Effect of cash flow management and financial performance

The second objective was to examine the effect of cash flow management on financial performance. The researcher provided various statements concerning cash flow management and financial performance which the respondents were supposed to indicate their level of agreement with any of the statement by selecting and ticking on one scale on the Likert type where SA (5) =Strongly agree, A (4) =Agree, NS (3) =Not sure, SD (2) =Strongly disagree while D (1) =Disagree. The findings were presented in table 4.9 as follows:

Table 4.4.1: Cash flow management and Financial Performance

Cash flow management	SA (5)	A (4)	NS (3)	D (2)	SD (1)
Lyamujungu Cooperative Financial Services Limited always does regular forecasts for future financial needs and prepare budgets on time.	72 (66.1%)	16 (14.7%)	0 (0.0%)	7 (6.4%)	14 (12.8%)
My cooperative management is responsible for cash with in the institution.	72 (65.1%)	16 (14.7%)	0 (0.0%)	14 (12.8%)	8 (7.4%)
It enables efficient and quick loans to the borrowers through maintenance of proper cash budgets.	56 (51.4%)	27 (24.8%)	0 (0.0%)	12 (11.0%)	14 (12.8%)
It always does raise and allocation of financial resources	48 (44.0%)	32 (29.4%)	12 (11.0%)	14 (12.8%)	3 (2.8%)
it continually does regular monitoring and controlling financial resources	63 (57.8%)	16 (14.7%)	16 (14.7%)	0 (0.0%)	14 (12.8%)
It often sets financial targets to be achieved with in a time bound period.	48 (44.0%)	24 (22.0%)	12 (11.0%)	11 (10.1%)	14 (12.8%)
It controls expenditure all the time.	41 (37.6%)	26 (23.9%)	8 (7.3%)	20 (18.3%)	14 (12.8%)
At all times Lyamujungu Cooperative Financial Services Limited maintains an efficient distribution of financial resources.	41 (37.6%)	23 (21.1%)	28 (25.7%)	3 (2.8%)	14 (12.8%)

Source: Primary data, 2022

The first statement sought for whether Lyamujungu Cooperative Financial Services Limited always does regular forecasts for future financial needs and prepare budgets on time. The study findings indicate that majority of the respondents totaling 88(80.8%) agreed while 21(19.2%) disagreed about the statement. The findings indicate that Lyamujungu Cooperative Financial Services Limited always does regular forecasts for future financial needs and prepare budgets on time and enhance financial performance. This implies that for cooperatives to perform well and prevent uncertainties in the future, they need to forecast their financial needs thus leading to improved performance.

The researcher also assessed whether cooperative management is responsible for cash with in the institution. The findings on this statement revealed that 88(79.8%) of the respondents agreed, 22(20.2%) disagreed with the statement. This indicates that cooperative management is responsible for cash with in the institution.

From the lowest extreme however, the study found that Lyamujungu SACCO has some challenges with distribution of financial resources and control of expenditure all the time. The challenges with failure to control expenditure include for the very first time, we realized an increase in loan default rates because of closure of businesses. We also registered a reduction in savings. Even those who had little savings had to come for them to stock food such that they can survive the uncertainty of Covid-19," adds Angella Nabatanzi, the Branch Manager, Lyamujungu SACCO She also said, the SACCO suffered some expenditures as it went ahead to support some of the vulnerable members in the community The above statistics, which are indicative of the extremes cash flow management suggest that forecasting the future and overseeing cash within the institution are key cash flow management practices. Besides forecasting, the study provides some evidence that Lyamujungu SACCO ensure available cash for not only borrowers but also maintenance of her cash budgets. The outcome is efficient financial performance. The statistics implies that more Lyamujungu SACCO demonstrates forecasting potentials, the higher the predicted performance.

4.4.1. Testing the hypnosis on whether cash flow management has a significant influence on financial performance in microfinance institutions in Uganda.

From the results indicated in table 4.9 about cash flow management and financial performance of Lyamujungu cooperative finance limited, Kabale district. Further analysis was done using Pearson rank coefficient formula to test whether there is a significant relationship between cash flow management and financial performance. This was established using SPSS as shown in the table 4.9 below:

Table 4.4.2: Relationship between cash flow management and Financial Performance

		Cash flow management	Financial performance
Cash flow management	Pearson Correlation	1	.753**
	Sig. (2-tailed)		.000
	N	109	109
Financial performance	Pearson Correlation	.753**	1
	Sig. (2-tailed)	.000	
	N	109	109

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

Table 4.10 above shows the results related to the correlation between cash flow management and financial performance of Lyamujungu cooperative finance limited Kabale district. The study findings revealed that Pearson Rank correlation (r=-.753**), sig. value $p<0.05$ and sample size (n=109). Basing on the above results, the study reveals that there is a statistically positive significant relationship between cash flow management and financial performance in Lyamujungu cooperative finance limited. In this case, the study accepts hypothesis, H_2 that there is a significant relationship between cash flow management and financial performance in Lyamujungu cooperative finance limited, Kabale district. This indicates that an increase in cash flow management lead to a significant increase in financial performance. This implies that financial organizations should continuously engage staff in cash flow statements preparations in order to track changes in performance.

The findings indicate that cash flow management account for 56.7% of the variations in the financial performance of Lyamujungu SACCO in Kabale district, based on (R Square = .567). Implicitly, every single cash management practice introduced in the Lyamujungu cooperative financial Services Limited explains about 56.7% of the institution's financial performance at any given time. Drawing from the square of the correlation coefficient between cash management practices and performance, which is statistically significant, this study accepted the null hypothesis. There is a statistically significant effect of cash management on financial performance of Lyamujungu SACCO in Kabale district.

4.5.Effect of working capital management on financial performance.

The third objective was to examine the effect of working capital management on financial performance. The researcher provided a number of statements concerning how working capital management influence financial performance and respondents were supposed to indicate their level of agreement with any of the statements by selecting and ticking on one scale on the Likert type where SA (5) =Strongly agree, A (4) =Agree, NS (3) =Not sure, SD (2) =Strongly disagree while D (1) =Disagree. The findings were presented in table 4.10 as follows:

Table 4.5.1: Working capital management and Financial Performance

Working capital management and financial performance	**SA (5)**	**A (4)**	**NS (3)**	**D (2)**	**SD (1)**
My cooperative has other sources of capital that it uses to finance its activities	64 (58.7%)	22 (20.2%)	8 (7.3%)	7 (6.4%)	8 (7.3%)
Lyamujungu Financial Services Limited has assets to run its daily operations	52 (47.7%)	29 (26.6%)	6 (5.5%)	8 (7.3%)	14 (12.8%)
Lyamujungu Financial Services Limited has assets to run its daily operations	46 (42.2%)	35 (32.1%)	0 (0.0%)	0 (0.0%)	28 (25.7%)
Lyamujungu Financial Services Limited has a lot of Working Capital Management Strategies / Approaches it uses	44 (40.4%)	32 (29.4%)	10 (9.2%)	3 (2.8%)	20 (18.3%)
Lyamujungu Cooperative Financial Services Limited has ability to meet financial obligations timely, including paying your employees, your suppliers, and your bills. This provides an honest picture of the company's short-term financial health.	46 (42.2%)	27 (24.8%)	16 (14.7%)	6 (5.5%)	14 (12.8%)
Lyamujungu Financial Services Limited have regular payments of dividends to its shar holders.	52 (47.7%)	19 (17.4%)	7 (6.4%)	11 (10.1%)	20 (18.3%)
It ensures it can satisfy expenses and debts in order to survive.	35 (32.1%)	26 (23.9%)	14 (12.8%)	20 (18.3%)	14 (12.8%)
Lyamujungu Financial Services Limited has much share capital	44 (40.4%)	16 (14.7%)	26 (23.9%)	9 (8.3%)	14 (12.8%)
Lyamujungu Financial Services Limited has new business opportunity plans to extend its future obligations.	15 (37.5%)	19 (47.5%)	4 (10.0%)	0 (0.0%)	2 (5.0%)

From the extreme end on working capital management, respondents agreed that Lyamujungu SACCO has other sources of capital it uses for financing their activities (78.9%). Besides having many sources of capital, Lyamujungu SACCO has assets to run its daily operations (74.3%), and has many working capital management approaches (69.2%). The findings imply that the working capital management practices used in Lyamujungu SACCO can spur the lending institution to deliver to her financial performance goals. From the lowest extreme however, Lyamujungu SACCO appears limited in terms of new business opportunities and the level of share capital. This implies that Lyamujungu SACCO seems to be struggling with increasing her share capital level, which would boost future business extensions.

4.8.2. Testing the hypothesis on whether working capital management has a significant influence on financial performance in Lyamujungu SACCO in Uganda

From the results indicated in table 4.6.2 about working capital management and financial performance of Lyamujungu Cooperative Finance Limited, Kabale district, further analysis was done using Pearson rank coefficient formula to test whether there is a significant relationship between Working capital management and Financial performance. This was established using SPSS as shown in the table 4.6.2 below:

Table 4.5.2: Relationship between working capital management and financial performance

		Working capital management	**Financial performance**
Working capital management	Pearson Correlation	1	.706**
	Sig. (2-tailed)		.000
	N	109	109
Financial performance	Pearson Correlation	.706**	1
	Sig. (2-tailed)	.000	
	N	109	109

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

The findings show that the relationship between working capital management and financial performance was strong, based on (R = .706; sig. <.05). The statistics indicate that a variation working capital management is associated with a strong variation in financial performance. In reality, Lyamujungu SACCO that step-up monitoring and manage their working capital are most likely to register significant variations in their financial performance. The significant value, which is less than 0.05 further shows that the variations are statistically significant, and the relationship is linear. From the findings, it can be deduced that working capital management account for 49.8% of the variations in the financial performance of Lyamujungu SACCO in Kabale district, based on (R Square = .498). Implicitly, every single internal control system introduced in Lyamujungu SACCO explains about 49.8% of the institution's financial performance at any given time. Drawing from the square of the correlation coefficient between working capital management and performance, which is statistically significant, this study accepted the null hypothesis. There is a statistically significant effect of working capital management on financial performance of Lyamujungu SACCO in Kabale district. The significant effect of working capital management on the financial performance of Lyamujung SACCO agrees with Lopatta et al. (2017) who recommends that efforts by the MFIs management to improve financial performance must be matched with adoption of financial management practices that provide Lyamujungu SACCO with competitive advantage over their rivals.

From the perspective of profitability, the significant effect of working capital management on financial performance agrees with Domanovic et al. (2018) and Alzoubi (2018). These authors argue that working capital strength helps both larger and smaller financial lending institution to harness economies of scale in transactions. While both the larger and smaller lending institutions enjoy economies of scale with high working capital, lending institutions like Lyamujungu SACCO might be limited due to the size of working capital and the working capital assets. Therefore, different smaller lending institutions may hardly enjoy the benefits of working capital in place. The positive and significant relationship between working capital management and financial performance agrees with Alzoubi, T. (2018), investigated the internal factors that have an effect on profitability in Saudi and Jordanian banks. According to the author, the relationship between working capital indicators and profitability of Jordanian banks. However, the results from Lyamujungu SACCO seem to disagree with Kule et al, (2020) who shows a negative correlation between loan portfolio indicators and profitability. The loan portfolio indicators mentioned in this study are characteristic of the working capital management investigated in Lyamujungu SACCO.

CHAPTER FIVE

DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

5.0.Introduction

The study examined the effect of financial management practices and financial performance and presents the discussion, conclusions and recommendations of the study of Lyamujungu cooperative financial services ltd.

5.1. Internal control systems and financial performance

The first objective of the study was to examine the effect of internal control systems on financial performance Lyamujungu SACCO in Kabale district. The study has established that internal control systems account for 79.4% of the variations in the financial performance of Lyamujungu SACCO in Kabale district, based on (r=.794**). The findings further indicated that financial performance of lyamujungu cooperative was measured in accordance to return on assets (ROA) 2018 (4.5%) ,2019 (4.6%), 2020 (-1.9%), 2021 (12.3%) 2022 (14.5%). These variations were due to effects of covid-19 and return on equity (ROE) 2018-2019 (24.6%), 2020-2021 (-49.4%) and 2021-2022 (51.8%). The variation in share capital was due to the cooperative opening new branches in other areas to increase the market share and this response was obtained from the manager during the interview and lyamujungu cooperative annual financial statements (2018-2022).

5.2 Cash flow management and financial performance

The second objective of the study was to determine the effect of cash flows on’ financial performance of Lyamujungu SACCO in Kabale district. The study has established that cash flow management account for 75.3% of the variations in the financial performance of MFIs in Kabale district, based on (r= .753**). Furthermore, the cooperative’s income statements of 2018 to 2022 showed an increase in cash inflows resulting from interest on advances, penalties on late payments and commission from mobile banking. In addition, the statement indicated a slight reduction in expenditures and this was accredited to spending according to the planned budget, introduction of mobile banking which reduced on stationery, transport on loan recoveries and allowances to field staffs. This implies that cash flow management significantly influences financial performance of lyamujungu cooperative limited.

5.3 Working capital management and financial performance.

The third objective of the study was to examine the effect of working capital management on financial performance of Lyamujungu SACCO from the findings, it was deduced that working capital management account for 70.6% of the variations in the financial performance of Lyamujungu SACCO in Kabale district, based on (r=706**). Implicitly, every single internal control system introduced in Lyamujungu SACCO explains about 70.6% of the institution's financial performance at any given time. Drawing from the correlation coefficient between working capital management and performance, which is statistically significant, this study accepted the null hypothesis. There is a statistically significant effect of working capital management on financial performance of Lyamujungu SACCO in Kabale district.

In accordance to the responses obtained from respondents established that working capital management comprised of current asset and current liabilities. The critical analysis of lyamujungu cooperative limited showed an increase in accounts receivables from 93,905251 to 101,195,100 (2018-2019), 87,140,000 to 117,889,996(2020-2021), 117,889,996 to 105,064,000 (2021-2022). The accounts payables showed a slight increase from 38,445,879 to 42,388,427 (2018-2019), reduction from 55,870,577 to 51,243,685 (2020-2021), and further reduction from 51,243,685 to 36,720,827. These findings implied that working capital management significantly influence financial performance of lyamujungu cooperative limited kabale branch.

5.4 Conclusion

The general objective to this study was to examine the relationship between the financial management practices and financial performance of Lyamujungu SACCO in Kabale District, there is a positive and significant relationship between financial management practices and performance of Lyamujungu SACCO in Kabale District. Lyamujungu SACCO that pay close attention to their financial management practices are likely to improve their performance especially profitability and loan portfolio. Importantly, Lyamujungu SACCO perform well when much attention is given to internal control systems. This is because the Supervisory Committee's reports are submitted to the Board of Directors at least once per 3 months with clear recommendations made backed by deadlines and responsible persons for implementation

The first objective of the study was to examine the effect of internal control systems on financial performance of MFIs in Kabale district. Internal control systems have a positive and significant effect on performance of microfinance institutions in Kabale. From the practical perspective, Lyamujungu SACCO segregate duties and ensure cash is collected from debtors on time and this has led to positive contribution of the SACCO in terms of good performance in form of making profits to the stake holders Notwithstanding, Lyamujungu SACCO do not have to ignore loopholes, which may be created in the institution when assets are neither numbered nor counted physically. Closing these loopholes does not only increase physical protection but also reduce discrepancies in recordings.

The second objective of the study was to determine the effect of cash flows on' financial performance of Lyamujungu SACCO in Kabale district. Cash flow management has a positive and significant effect of performance of Lyamujungu SACCO in Kabale district. In practical terms, Lyamujungu SACCO forecast future financial needs and ensure cash is available in the institution is likely to perform than those lending institutions that do not. Notwithstanding the financial forecasts, poor distribution of financial resources and failure to control expenditures destroy any cash flow strategies in the institution. This is a financial policy concern that requires immediate reparation.

The third objective of the study was to establish the effect of working capital on financial performance of Lyamujungu SACCO in Kabale district. Working capital management positively affects performance of Lyamujungu SACCO in Kabale district. Working capital management practices such as having multiple sources of finance and enough assets for daily operations perform well compared to their counterparts that struggle with financial resources. Notwithstanding, lending institutions with little share capital continuously struggle to venture in business opportunities. This is also a policy concern that must be addressed immediately.

5.5.Recommendations

Based on the findings of this study, the following recommendations were made:

The findings on internal control systems and performance showed that Lyamujungu SACCO has challenges with numbering their assets and providing them physical protection. This study recommends that Board of Directors ensures that all assets are registered in the asset register and all Physical Assets that belong to Lyamujungu SACCO be engraved and numbered with clear and visible labels.

The findings on cash flow management and performance showed that Lyamujung SACCO has challenges with controlling expenditures. This study recommends that Management to Lyamujungu SACCO should ensure that expenditure done is in line with the planned budget in order to meet its expectations as far as financial performance is concerned

The findings on working capital management showed that Lyamujung has challenges with limited share capital. This study recommends that the Board of Directors need to encourage members to put much money in share capital since it's through this that members can earn a lot of interest and increase on their shares and profits after sharing of dividends. In addition to this some incentives should be given to the members with a good number of shares such as life schemes, to the most saving clients commissions, some token and give some small percentage to loan creditors who pay on time.

5.6.Areas for future research/study

This study analyzed the effect of financial management practices on the financial performance of Lyamujungu SACCO.

The study did not include all the financial management practices done by SACCO such as compliance of SACCOs with Laws and Regulations, Recommendations of the General Assembly and the role of share capital on the financial performance of Lyamujungu SACCO in Kabale district.

The study was based on only Lyamujungu SACCO to portray the relationship between financial management practices and performance of Lyamujungu SACCO. This scope was indeed small to allow for generalizability of the findings. Future researchers should consider investigating the relationship between financial management practices in Lyamujungu SACCO in Kabale district.

The cross-sectional design adopted in the current study could not portray the financial performance of Lyamujungu SACCO over the last years. Future researchers should consider examining the financial performance of Lyamujungu SACCO based on a longitudinal study.

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APPENDIX

NO	ITEM DESCRIPTION	Amount
1.	Transport	400,000
2.	Data collection process	500,000
3.	Data bundles and Internet	200,000
	Communication (airtime)	100,000
4.	Miscellaneous	200,000
	Research assistants' refreshments and transport refund	300,000
5.	Printing, spiral binding, and hardcover binding	400,000
	TOTAL	2,100,000

APPENDIX I: INTERVIEW GUIDE FOR STAFF OF LYAMUJUNGU COOPERATIVE FINANCIAL SERVICES LTD.

Introduction:

Dear respondent,

My name is Komuhangi Jacenta a student at Kabale University in the Faculty of Economics and Management Sciences perusing degree of Masters in Business Administration. I am conducting a study on "financial management practices and performance of micro finance institutions a case study of Lyamujungu Cooperative Financial Services Limited". You have been identified as my participant in the study and you are therefore kindly requested to provide appropriate views by either ticking the best option or give explanation where applicable. The answers you provide will only be used for academic purposes and will be treated with uttermost confidentiality.

Your honest and sincere responses are highly appreciated.

N.B: Do not write your name anywhere on this paper.

Thank you for supporting my research study.

Komuhangi Jacenta

Researcher

0776259035

SECTION A: BACKGROUND INFORMATION

DEMOGRAPHIC ASPECT

1. Age

(i) 20-29 ☐

(ii) 30-39 ☐

(iii) 40-49 ☐

(iv) 50+ ☐

2. Gender

(i) Male ☐

(ii) Female ☐

3. Highest qualification

(i) Primary ☐ (ii) Degree ☐

(iii) Secondary ☐ (iv) Masters ☐

(iii)Certificate ☐ (v) Others ………………….

4. Marital status

(i) Single ☐

(ii) Married ☐

(iii)Separated/divorced ☐

(iv)Widow/widower ☐

5. How long have you spent in this institution?

less than 2 years ☐ 2-5 years ☐

5-10 years ☐ Above 10 years ☐

6. In which department are you employed in

(i)Finance department ☐ Marketing department ☐

(ii)Loans department ☐ administrative department ☐

SECTION B; FINANCIAL MANAGEMENT PRACTICES

The table below has statements that indicate aspects on internal controls, cash flows, working capital management

Please indicate the extent to which you agree with the following statement by ticking: 5=Strongly Agree, 4=Agree 3= Neutral 2=Disagree 1=Strongly Disagree

CODE	**Internal control systems.**	**5**	**4**	**3**	**2**	**1**
ICS1	My cooperative usually maintains proper accounts.					
ICS2	My cooperative maintains physical counting to reveal well-hidden discrepancies in account balances by bypassing electronic records altogether.					
ICS3	Asset numbering is done to show location and protection of the assets					
ICS4	Lyamujungu Cooperative Financial Services Limited maintains physical audits including hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools.					
ICS5	Standardized documents such as modern accounting information systems (AIS)are used for financial transactions to maintain consistency in record keeping over time hence eliminating fraud amongst the employees by Lyamujungu Cooperative Financial Services Limited.					
ICS6	Authorization and approval of financial transaction are being maintained by one person to avoid fraud at Lyamujungu. Cooperative Financial Services Limited.					
ICS 7	Lyamujungu Cooperative Financial Services Limited segregates duties to ensure proper handling of institutions assets					

ICS8	Lyamujungu Cooperative Financial Services Limited only uses skilled accounting staff to do standard accounting works.					
ICS9	Lyamujungu Cooperative Financial Services Limited always ensures that cash is collected from debtors on the due date.					
ICS 10	It follows standard lending practices and issues loans only after recording relevant borrowers' details.					
	Cash flow management					
Cfm1	Lyamujungu Cooperative Financial Services Limited always does regular forecasts for future financial needs and prepare budgets on time.					
Cfm2	My cooperative management is responsible for cash with in the institution.					
Cfm3	it continually does regular monitoring and controlling financial resources					
Cfm4	It often sets financial targets to be achieved with in a time bound period.					
Cfm5	At all times Lyamujungu Cooperative Financial Services Limited maintains an efficient distribution of financial resources.					
Cfm6	It always does raise and allocation of financial resources					
Cfm7	It controls expenditure all the time.					
Cfm8	It enables efficient and quick loans to the borrowers through maintenance of proper cash budgets.					
	Working capital management					
Wcm 1	It ensures it can satisfy expenses and debts in order to survive.					
Wcm 2	Lyamujungu Cooperative Financial Services Limited has ability to meet financial obligations timely, including paying your					

	employees, your suppliers, and your bills. this provides an honest picture of the company’s short-term financial health.					
Wcm 3	Lyamujungu Financial Services Limited has much share capital					
Wcm 4	Lyamujungu Financial Services Limited has a lot of Working Capital Management Strategies / Approaches it uses					
Wcm 5	Lyamujungu Financial Services Limited has new business opportunity plans to extend its future obligations.					
Wcm 6	Lyamujungu Financial Services Limited have regular payments of dividends to its shar holders.					
Wcm 7	Lyamujungu Financial Services Limited has assets to run its daily operations					
Wcm 8	My cooperative has other sources of capital that it uses to finance its activities					

SECTION C: FINANCIAL PERFORMANCE

	Profitability.					
Pt1	Lyamujungu is growing faster in terms of number of members.					
Pt2	Lyamujungu is earning more profits from interest charges on loans than other enterprise in the area.					
Pt3	Lyamujungu Cooperative Financial Services Limited is the fast in terms of saving and lending to members.					
Pt4	Lyamujungu has more assets compared to other enterprises in the area.					
Pt5	Lyamujungu Cooperative Financial Services Limited growing capabilities in terms of loan portfolio.					
Pt6	Lyamujungu Cooperative Financial Services Limited often provides efficient non- financial services to its customers.					
Pt7	Lyamujungu Cooperative Financial Services Limited is very effective in doing its daily operations.					

	Loan portfolio					
Lp1	The methods of loan recovery are so harsh in this organizations in that no one can default.					
Lp2	The management team work and regular meetings to share on the credit terms, effort, and standards has enhanced portfolio performance					
Lp3	Lyamujungu Cooperative Financial Services Limited loan defaulters have reduced over years.					
Lp4	Management of Lyamujungu Financial Services limited supervises the loan portfolio.					
Lp5	Approval process: approval authority, loan committee structure, loan evaluation analysis requirements, exception definition, and exception reporting requirements are used by Lyamujungu financial services limited					
Lp6	Has the increase on loan recovery efforts led to improve performance					
LP7	Portfolio limits and strategic goals: credit culture, asset distribution, aggregate loan limits, desirable loan types, concentrations and concentration limits, distribution goals, and participation guidelines.					

Appendix III: INTERVIEW GUIDE FOR THE KEY INFORMANTS FOR LYAMUJUNGU STAFF.

1. Has the cashier been provided with the cashier-box and sign in the statement to acknowledge the closing balances every day?
2. Are all withdrawing and deposit of members' savings done at the SACCO's location or outside the SACCO's premises?
3. Are all bank accounts supplemented by the necessary periodic bank statements to facilitate their monitoring?
4. Are the signatories of all bank accounts in place and ensure that no withdrawal is made when they have not approved?
5. Is mobile banking as a modern payment system being used by Lyamujungu SACCO?
6. Before paying any expenditure using petty cash is the money issuance document signed by the SACCO's authorities (chairman of the BOD or Manager and the accountant)?
7. Is there any internal document signed at the SACCO before paying using the bank account (cheque, payment order).
8. Does the head of the counter/branch (branch/counter manager counter check all the operations of the counter including daily cash control accounting books, branch loan appraisal process and provides a daily report at the headquarters?
9. Does Lyamujungu SACCO check before making any purchase, engaging in any contract or making any payment whether it is in line with the budget?
10. Does internal Auditor ensuring the application of the internal control guidelines in order to prevent any malpractices which could easily occur.
11. Does the Supervisory Committee check daily cash controls done by the cashiers, accountant and the Manager?
12. Have been reports read through the General Assembly meetings (in every meeting) with an emphasis on the recommendations made and actions put in place to address issues revealed by those reports