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The Effect of Segregation of Duty on Financial Performance in Commercial Banks in Uganda: A Case of Centenary Bank Kabale Branch

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ABSTRACT

This study examined the effect of segregation of duties on the financial performance of commercial banks in Uganda, focusing on Centenary Bank Kabale Branch. The study adopted a cross-sectional survey research design involving both quantitative and qualitative approaches. Data were collected from 159 respondents and analysed using descriptive statistics, Pearson correlation analysis, and linear regression models. Descriptive analysis was presented using frequency tables to explain the characteristics of the variables under study. Pearson correlation analysis was conducted at the bivariate level to establish the relationship between segregation of duties and financial performance, while regression analysis was used to determine the magnitude of the effect. The findings revealed that segregation of duties significantly and positively influenced the financial performance of commercial banks, with the regression results indicating a strong relationship ($R^2 = 0.825$, $p < 0.01$). Both quantitative and qualitative findings showed that effective segregation of duties strengthens accountability, minimizes fraud and operational errors, and improves organizational efficiency. The study concluded that strong internal control mechanisms are essential for enhancing financial performance in commercial banks. The study therefore recommends that commercial banks strengthen internal controls by clearly defining staff roles and responsibilities, conducting regular staff training on ethical practices and internal controls, and adopting digital monitoring and audit systems for real-time transaction supervision. Regular independent audits and management oversight are also necessary to promote transparency, accountability, and sustainable financial performance.

Keywords: Segregation of Duty, Financial Performance, Commercial Banks in Uganda and Centenary Bank Kabale Branch.

INTRODUCTION AND LITERATURE

Financial performance in commercial banks refers to the ability of banking institutions to generate profits while maintaining liquidity, asset quality, operational efficiency, and capital adequacy. Traditionally, financial performance has been measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), and net interest margins. However, modern banking systems have expanded the concept of financial performance to include efficiency, risk management, sustainability, and customer satisfaction due to the increasingly complex nature of financial operations. According to Rose and Hudgins (2013), financial performance reflects the overall capacity of banks to effectively utilize resources in order to achieve profitability and stability. Similarly, Turyasingura, , Agaba, & Kabagabe, (2023). emphasize that financial performance is closely linked to operational efficiency, cost management, and institutional governance.

Globally, the banking industry has experienced major transformations over the past decades, particularly following the Global Financial Crisis of 2008, which exposed serious weaknesses in risk management and internal control systems. In response, international regulatory frameworks such as Basel III were introduced to strengthen banking supervision, improve capital adequacy, and enhance risk management practices. These reforms emphasized the importance of internal controls, accountability, and transparency in promoting financial stability within banking institutions. According to Nicoletti (2017), digital transformation has enabled banks to diversify revenue streams, improve customer experiences, and reduce operational costs.

In Africa, commercial banks have generally demonstrated strong profitability due to high interest margins and increasing financial inclusion. However, financial performance across African countries differs depending on the regulatory environment, economic conditions, and institutional capacity. Agaba & Turyasingura (2023) note that African banks have benefited from expanding banking services and improved financial reforms, although challenges such as weak governance systems, limited technological infrastructure, and high operational risks continue to affect performance. Similarly, Flamini et al. (2009) observed that macroeconomic stability and effective regulatory supervision are critical determinants of bank profitability and sustainability in African economies.

Within East Africa, the banking sector has undergone a rapid transformation driven by technological innovations such as mobile money, agency banking, and digital financial services. Countries such as Uganda, Kenya, and Tanzania have witnessed significant growth in financial inclusion through the adoption of mobile banking platforms. Agaba, M., Turyasingura, & Rugasira (2025). explain that mobile money services have increased access to financial services, particularly among low-income populations and small businesses. In addition, agency banking has reduced operational costs and expanded financial access to rural communities. Despite these advancements, East African banks continue to face challenges related to non-performing loans, operational inefficiencies, and fraud risks, which negatively affect financial performance.

In Uganda, the banking sector has shown resilience and steady growth supported by the regulatory oversight of the Bank of Uganda and the expansion of digital banking services. Recent developments in agent banking, mobile banking, and electronic payment systems have improved financial accessibility and operational efficiency. The banking industry has also experienced improvements in liquidity, profitability, and asset quality. However, several challenges continue to affect financial performance, including credit risk, limited financial literacy, operational inefficiencies, and macroeconomic fluctuations. Bategeka and Okumu (2010) argue that effective internal control systems are essential for minimizing these challenges and enhancing banking stability in Uganda.

In Uganda, studies by Ssekajugo, Nalukenge, and Tauringana (2014) indicated that high-quality internal controls positively influence financial reporting and organizational performance. Similarly, Bitekerezo (2018) found that banks with stronger segregation of duties experienced lower fraud levels and improved profitability. Tumwebaze (2019) further revealed that segregation of duties significantly improves financial performance by enhancing accountability and reducing financial mismanagement within Ugandan banks.

At the local level, Kabale District presents a unique banking environment characterized by an agrarian economy, growing small and medium enterprises (SMEs), and increasing demand for financial services. The seasonal nature of agricultural incomes significantly affects banking operations and loan repayment patterns. Consequently, commercial banks operating within the district are required to adopt flexible financial strategies and effective risk management systems. Centenary Bank has emerged as one of the leading financial institutions in the region due to its focus on microfinance, SME lending, and digital banking services.

Through these services, the bank has improved financial inclusion and strengthened its market position within the district. Nevertheless, concerns regarding internal control systems, particularly segregation of duties, remain significant because weaknesses in such controls may expose banks to fraud, financial mismanagement, operational errors, and inefficiencies that negatively affect financial performance.

The relationship between segregation of duties and financial performance is based on the role of internal controls in improving organizational effectiveness and reducing operational risks. Effective segregation of duties minimizes fraud, prevents financial misstatements, and enhances the reliability of financial information. Consequently, institutions experience reduced financial losses, improved resource allocation, and enhanced profitability. Furthermore, segregation of duties promotes accountability by ensuring that employees perform clearly defined responsibilities within established procedures.

This reduces duplication of work, administrative inefficiencies, and opportunities for financial misconduct. Studies consistently demonstrate the positive influence of segregation of duties on financial performance. Doyle, Ge, and McVay (2007) established that weaknesses in internal control systems, including inadequate segregation of duties, were associated with lower profitability and unreliable financial reporting among firms in the United States. Similarly, Ashbaugh-Skaife, Collins, and Kinney (2007) found that organizations with strong internal controls experienced improved profitability and reduced risk exposure. In the banking sector, Ogneva, Subramanyam, and Raghunandan (2007) observed that internal control deficiencies negatively affected firm value and organizational performance, particularly in institutions with complex financial transactions.

Despite the extensive literature supporting the positive relationship between segregation of duties and financial performance, gaps still exist. Most previous studies have focused broadly on internal control systems rather than examining segregation of duties independently.

Additionally, limited empirical evidence exists regarding the specific effect of segregation of duties on financial performance within individual bank branches such as Centenary Bank Kabale Branch. Therefore, this study sought to fill this gap by providing context-specific evidence on how segregation of duties influences financial performance in commercial banks in Uganda.

METHODOLOGY

Research Design

The study adopted a descriptive cross-sectional survey design to examine the effect of internal control systems on financial performance in commercial banks, focusing on Centenary Bank Kabale Branch. The design enabled the researcher to collect data from respondents at a single point in time and systematically describe the relationship between segregation of duties and financial performance.

Research Approach

The study employed a mixed-methods approach involving both quantitative and qualitative techniques. Quantitative methods were used to analyze statistical relationships between internal control mechanisms and financial performance indicators, while qualitative methods provided a deeper understanding of employee experiences and institutional practices. The integration of the two approaches enhanced reliability and validity through triangulation of findings.

Study Population

The study population comprised all staff members of Centenary Bank Kabale Branch, totalling 182 respondents. These included branch managers, operations managers, internal auditors, loan officers, accountants, risk/compliance officers, tellers, and customer service staff.

Sample Size and Sampling Techniques

A sample size of 165 respondents was selected using purposive and simple random sampling techniques. Purposive sampling targeted branch managers, auditors, and compliance officers because of their expertise in internal control systems, while simple random sampling was applied to other staff categories to ensure equal representation.

DATA COLLECTION METHODS AND INSTRUMENTS

Data Collection Methods

Data were collected using questionnaires, interviews, and document analysis. Questionnaires gathered quantitative information regarding internal controls and financial performance. Semi-structured interviews with senior staff provided qualitative insights into implementation challenges and operational experiences. Document analysis involved reviewing financial reports, audit reports, and compliance records.

Data Collection Instruments

Structured questionnaires and interview guides were the main instruments used. The questionnaire employed a four-point Likert scale ranging from Strongly Disagree to Strongly Agree. Interview guides contained open-ended questions to obtain detailed explanations from management and internal auditors.

Pretesting

Validity of Instruments

Validity was ensured through expert review, consultation with supervisors, and pilot testing among respondents with similar characteristics. The Content Validity Index (CVI) was computed to assess instrument relevance and clarity.

Reliability of Instruments

Reliability was tested using Cronbach's Alpha coefficient. An alpha value of 0.7 and above was considered acceptable, indicating strong internal consistency of the instruments.

Procedure for Data Collection

After obtaining ethical clearance and permission from the management of Centenary Bank Kabale Branch, questionnaires were distributed and interviews were conducted with selected staff. Participation was voluntary, and confidentiality was maintained throughout the process.

Data Analysis

Data was analysed using SPSS Version 23. Descriptive statistics such as frequencies, percentages, means, and standard deviations were generated. Pearson correlation and linear regression analyses were conducted to establish relationships between internal controls and financial performance.

Ethical Considerations

The study observed ethical principles including informed consent, confidentiality, anonymity, and voluntary participation. All information collected was used strictly for academic purposes, and proper referencing was done to avoid plagiarism.

Limitations of the Study

The study faced limitations such as restricted access to internal documents, time constraints, and non-responsiveness from some participants due to workload. These challenges were minimized through proper scheduling and cooperation from supervisors.

Empirical Results

Findings and Discussion on Segregation of Duties and Financial Performance

The first objective of the study was to examine the effect of segregation of duties on financial performance in commercial banks in Uganda, with specific reference to Centenary Bank Kabale Branch. The findings revealed that segregation of duties significantly and positively influences financial performance through strengthening accountability, reducing fraud and errors, improving operational efficiency, and enhancing financial reporting accuracy.

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Table 1: Analysis on the Statements Subjected to Respondents

Response	Agree		Undecided		Disagree	
	F	%	F	%	F	%
Segregation of duties at Centenary Bank Kabale Branch reduces the risk of fraud and errors, thereby improving financial performance.	120	75.5	00	00	39	24.5
Clear separation of roles and responsibilities among staff enhances accountability in financial management.	159	100	00	00	00	00
Segregation of duties contributes to timely detection and correction of financial irregularities in the bank.	134	84.3	00	00	25	15.7
The division of responsibilities among employees increases operational efficiency and accuracy in financial reporting.	125	78.6	00	00	34	21.4
Effective segregation of duties strengthens internal controls, which positively influences the overall financial performance of the bank	150	94.3	9	5.7	00	00

Source: Field data 2026

The descriptive findings indicate that the majority of respondents strongly supported the importance of segregation of duties within the bank. About 75.5% of respondents agreed that segregation of duties reduces fraud and errors, thereby improving financial performance, while only 24.5% disagreed. In addition, all respondents (100%) agreed that clear separation of roles and responsibilities enhances accountability in financial management. Similarly, 84.3% indicated that segregation of duties contributes to timely detection and correction of financial irregularities, while 78.6% agreed that division of responsibilities improves operational efficiency and financial reporting accuracy. Furthermore, 94.3% of respondents affirmed that effective segregation of duties strengthens internal controls and positively affects the bank's overall financial performance. These findings imply that employees perceive segregation of duties as an essential internal control mechanism for enhancing transparency, accountability, and institutional performance.

Qualitative findings further supported the quantitative results. One senior accountant explained that segregation of duties minimizes opportunities for fraud because authorization, record-keeping, and verification are handled by different staff members, making irregularities easier to detect. A branch manager emphasized that clear separation of responsibilities increases staff accountability and reduces errors in financial reporting. An operations officer also noted that although segregation of duties may sometimes slow operational processes, it enhances accuracy, compliance, and quality financial management. The qualitative responses therefore confirmed that effective segregation of duties strengthens internal controls and contributes to improved financial performance.

The correlation analysis established a strong positive relationship between segregation of duties and financial performance, with a Pearson correlation coefficient of $r = 0.767$ and a significance value of $p = 0.000$. This indicates that improvements in segregation of duties are associated with increased financial performance at Centenary Bank Kabale Branch. Regression analysis further confirmed this relationship, where the model summary showed $R = 0.767$ and $R^2 = 0.825$, implying that segregation of duties explained a large proportion of variation in financial performance. The regression coefficient ($B = 0.921$) and significance level ($p = 0.000$) demonstrated that segregation of duties is a strong and statistically significant predictor of financial performance.

These findings are consistent with Kwaa-Aidoo (2022), who established that segregation of duties is important in fraud prevention and accountability within banking institutions. Similarly, Ogunmakin, Fajuyagbe, and Alayo (2020) found that effective governance and internal controls significantly influence financial performance in deposit money banks. The present study extends these findings by providing localized evidence from the Ugandan banking environment, particularly in Kabale District.

CONCLUSION

Segregation of duties is not merely a compliance requirement but a strategic financial management tool that contributes to the overall health and sustainability of banking institutions. For commercial banks in Uganda, strengthening internal control systems—particularly segregation of duties—should be prioritized as a means of safeguarding assets, improving reporting accuracy, and enhancing institutional performance. The study therefore affirms that effective internal controls are fundamental to achieving strong and sustainable financial performance in the banking sector.

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