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The Practice of Accounting Standards And Performance Of Commercial Banks In Kabale Municipality, South Western Uganda

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Abstract

Background : Accounting Standard practices and their relationships with the performance of commercial banks in Kabale Municipality in Uganda are not defined. Probing into the relationship between the two will unearth the key necessary to impact management capacity

Objective: To determine the influence of accounting techniques, accountability, and transparency on the performance of selected representative commercial banks in Kabale Municipality, Uganda

Methods : The cross-sectional retrospective study design adopted was quantitative and descriptive with a sample that comprised 118 respondents selected by both simple and purposive random sampling. The data were tested for reliability and analyzed using SPSS.

Results: : The use of accounting techniques significantly affected the financial performance of studied commercial banks ($p=.031<0.05$). Accountability was found to have a significant ($p<0.05$) effect on the performance of studied commercial banks in Kabale Uganda. Transparency was also found to have a significant effect on the financial performance of selected commercial banks in Kabale Municipality ($p=0.021<0.05$)

Conclusion and recommendations: Accounting techniques, accountability, and transparency have a significant effect on the financial performance of banks. Banks should have operational accounting techniques, accountability, and transparency mechanisms to impact better financial performance.

Keywords: Accounting Standards, Performance of Commercial Banks, Kabale Municipality, South Western Uganda

Introduction

Accounting Standards may be defined as how guidelines and rules for financial accounting are implemented by the firms. An example may include how firms prepare and present their business income, expenses, assets, and liabilities, using the International Accounting Standards Board (IASB) guideline. In this study, the practice of accounting standards refers to transparency, accountability, and accounting techniques that are designated for use by various stakeholders in the banking sector.

Performance of commercial banks refers to the degree that financial objectives have been achieved and is an important aspect of financial 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 a firm's overall financial health over a given period and can also be used to compare similar firms across the same industry or to compare industries or sectors in combination. (1)

Previous Bank of Uganda reports show transparency and accountability in Uganda's banking sector (1). The approach to accounting standards of some commercial banks is based on transparency, accountability, and accounting techniques, and it is unclear if this practice is related to financial performance (2). Effective policies and procedures are important because it helps banks to maintain sound credit-grading standards, monitor and control credit risk, properly evaluate new business opportunities, and identify and administer credit problem credits (3). The existence of a robust governance framework has not impacted the poor performance of the bank's portfolio.

The Bank of Uganda On-Site supervision report (4) revealed that for the financial year 2008/09, credit risk had increased from UGX. 0.8 billion to UGX.4.8 billion indicating a 600% increase in credit risk within one year, a justification for the 23% reduction in the profits of the banks. According to the bank's performance of 2009, Stanbic Bank made a pretax income of UGX. 122.5 billion and in 2010 recorded UGX. 87.6 billion showing a decrease of 34.9 billion in the pretax income of the bank.

Regarding profit after tax, the bank realized UGX 72.18 billion showing a decrease of 24.4% from UGX. 95.3 billion. However, this is still in its infancy given that Uganda's banking sector has just been undergoing reforms over the years (4). The performance of commercial banks in Kabale Municipality has continuously deteriorated over the years as evidenced in the bank of Uganda annual report (5) indicating a decline in Transparency, Accountability, and in the use of accounting techniques.

Former Crane Bank Uganda Limited recently closed and sold to DFCU Bank, and the National Bank of Commerce was also closed by the Bank of Uganda due to poor performance. The practice of accounting standards by Centenary Bank Kabale, Stanbic Bank Kabale, and Bank of Baroda Kabale, has a strong relationship with financial performance. An accurate analysis of performance standards in these banks is needed for insights on factors militating against poor performance. This then can provide the basis for the design and implementation of effective intervention.

Objective

To determine the role of accounting techniques, accountability, and transparency on the performance of selected commercial banks in Kabale Municipality, Uganda

Method

In this retrospective cross-sectional survey (6), 123 existing data from selected banks were collected and analyzed using standard statistical tools (s=X 2NP(1−P) ÷d2 (N−1)+X 2P(1−P)), with the ultimate goal of laying the groundwork for decisions making about follow-up studies (7)

Table. 1 Sample Size Determination

Respondent Category	total population	Sample	Sampling Technique
Branch managers	06	06	Purposive sampling
Assist. Managers	08	08	Purposive sampling
Supervisors	15	14	Simple random sampling
Tellers	30	22	Simple random sampling
Credit administrators	08	08	Purposive sampling
Loans officers	30	22	Simple random sampling
Clients	83	43	Simple random sampling
Total	180	**123**	

The validity of the Research Instrument:

To establish validity, the instrument was given to two experts to evaluate the relevance, language clarity, and comprehensiveness of the study variable and objectives. Each item in the instrument was analyzed objectively and rated on the scale of relevance (4), quite relevant (3), somewhat relevant (2), and not relevant (1). The validity of research instruments ensures the integrity of data to be generated by the instrument. Novelty and uniqueness of data erase doubt and speculations to confirm the integrity of such data and consequently impacts the integrity of the more entire study (8)

Validity was determined using the Content Validity Index (C.V.I) Formula: C.V.I = Total Number of relevant Questions / divided by the Total Number of items in the Questionnaire. This equals = 33 /38, = 0.85*100 . The result of this CVI (0.85) was considered high enough to confirm data validity because Amin (9) recommends a CVI for 0.7 and above in survey studies. Reliability of Research Instrument To ensure reliability, the instrument was piloted once on a larger sample. Cronbach's alpha was then used to measure the internal consistency of the pilot-tested respondents. SPSS was used to calculate Cronbach's alpha for scores that fall along a continuum of the Likert scale. The Results of the Reliability test is presented in Table 2 below

Table 2 Reliability Results

Variable	No. of questions	Alpha
Accounting Techniques	08	0.875
Accountability	08	0.750
Transparency	08	0.875
Performance	09	0.899
Total	**33**	**0.850**

The calculated value of alpha for Accounting Techniques was 0.875, for Accountability was 0.750, and Transparency was 0.875. Cronbach's Alpha for Performance was 0.899 which was greater than the recommended 0.70. As the acceptable reliability coefficient value of alpha is 0.70 (10), the instruments were considered reliable.

Data Analysis: With the Statistical Package for Social Sciences (SPSS) software, frequencies and percentages were determined for the demographic data, and regression analyses were done to establish the extent to which the practice of accounting standards has improved the performance of commercial banks. Pearson correlation was used to establish the relationship between the practice of accounting standards and the performance of commercial banks.

Results

Response Rate and Demographic Characteristics of Respondents Response rate

Table 3 Summary of Study Response Rate

Category of Respondents	**Targeted respondents**	**No. involved**	**Response rate**
Branch managers	06	06	100%
Assist. Managers	08	07	87.5%
Supervisors	14	14	100%
Tellers	22	20	90.9%
Credit administrators	08	08	100%
Loans officers	22	22	100%
Clients	43	41	95.4%
Total	**123**	**118**	**96.3%**

A total number of 123 respondents were expected to participate in the study (Table 3), but 118 respondents participated to make a response rate of 96.3%. Others did not participate in interviews sighting reasons for being busy some were reported out of their duties. This response rate is above the 60- 70% response rate as recommended by the Guttmacher Institute, (2006) for a study to be considered as one with satisfactory results. Highest Qualification Attained by the respondents The results showing the percentage proportion of respondents about the highest qualification attained are presented in the table below.

Table 4 showing the results on the education level of the respondents

Education Level	**Frequency**	**Valid Percent**	**Cumulative Percent**
Diploma	34	28.8	
Degree	50	42.4	
Postgraduate	15	12.7	100.0
Masters	07	5.9	
Others	12	10.1	
Total	**118**	**100.0**	

The majority of respondents (table 4) had bachelors' degrees with 42.4%, followed by diplomas with 28.8% then postgraduate with 12.7%. lastly others category with 10.1%. the least percentage of respondents was in the Master's category with 5.9%. This means that majority of the respondents have the right skills and knowledge to respond to the study variables

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Table 5 Respondents' number of years working with the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 1 Year	37	31.4	31.4	31.4
	2-3 Years	35	29.7	29.7	61.0
	4-5 Years	34	28.8	28.8	89.8
	6-10 Years	9	7.6	7.6	97.5
	Above 10 Years	3	2.5	2.5	100.0
	Total	**118**	**100.0**	**100.0**	

The majority of the respondents had served their banks for over a year (31.4%), and 29.7% for two to three years respectively. Twenty-eight percent (28.8%) of other respondents had served their organizations for about 4-5years. About 7.6% of respondents had worked with their organizations for 6-10 years while the rest minority population 2.5% had worked with their organizations for over 10 years.

Table. 6 showing the Level of Management in an Organization

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Top	14	11.9	11.9	11.9
	Middle	30	25.4	25.4	37.3
	Other	74	62.7	62.7	100.0
	Total	**118**	**100.0**	**100.0**	

The minority of respondents (11.9%) had the top positions in their organization management. 25.4% of the respondents were in middle positions of management. The rest were serving in other positions in their respective organizations. Correlation Analysis All the predictor variables had a coefficient of correlation between themselves more than 0.5 hence all of them were included in the model. The matrix also indicated a high correlation between the response and predictor variables accounting Techniques, Accountability, Transparency, and Performance of selected commercial banks in Kabale Municipality

Table 7. Pearson Correlations

	Financial Performance	Accounting Techniques	Accountability	Transparency
Financial Performance	1.000			
Accounting Techniques	.536	1.000		
Accountability	.911		1.000	
Transparency	.752	.731	.118	1.000

From table 7 above, there is a high positive correlation between Accountability and Financial Performance of selected commercial banks. (r=0.911), there is also a moderate positive correlation between Accounting techniques and Financial performance in Selected commercial banks (r=0.536). This study shows a high positive correlation between Transparency and the Financial Performance of selected commercial banks in Kabale Municipality (r=0.752). A regression analysis was done to establish the association between the independent variables with the dependent variable of the study.

The following regression model was adopted for the study: $Yi = \beta0 + \beta X1 + \beta X2 + \beta X3 + \ldots + \beta Xn + \varepsilon$, where Y= Dependent variable is (Financial Performance); X= Independent variable (Accounting Standards). As measured by the various indicators of Accounting Standards (Accounting Techniques, Accountability, and Transparency), X1=Accounting Techniques used by selected commercial banks in Kabale Municipality, X2= Accountability Measures employed by selected commercial banks in Kabale Municipality, X3= Transparency Measures employed by selected commercial banks in Kabale Municipality, β0= Constant term ε= Error term within a confidence interval of 5%

Table. 8 showing Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F		Sig.		
Regression	.852	4	.213	1.242		.000		
Residual	20.35	110	.171					
Total	22.64	98						
Model	R Square	Adjusted R Square	The Standard. error of the Estimate	Change statistics				
				R Square change	F Change	df1	df2	Sig. F Change
1	.843	.805	.5103	.843	1.242	4	96	.000

Strength of the model

ANOVA findings (p-value of 0.00) in the Table 8 above show that there is a correlation between the predictor variables (Accounting Techniques, Accountability, and Transparency) and the response variable (Financial Performance). Analysis in Table 8 above shows that the coefficient of determination R equals 0.843. Thus Financial Performance explains 84.3% of the observed change in the Practice of Accounting Standards. The p-value of 0.000 (Less than 0.05) implies that the regression model is significant at the 95% significance level.

Table.9 Coefficients of Regression Equation

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	*t*	Sig.
(Constant)	0.903				
Accounting Techniques	0.035	0.028	0.018	1.021	0.031
Accountability	0.016	0.021	0.013	1.115	0.015
Transparency	0.017	0.024	0.016	1.018	0.021

The established multiple linear regression equation becomes: $Yi = 0.903\beta0 + 0.035\beta X1 + 0.016\beta X2 + 0.017\beta X3 + 0.028e$ Constant = 0.903, shows that if all the independent variables Accounting Standards (Accounting techniques, Accountability, and Transparency) are rated as zero, Financial Performance measured by the percentage of the commercial banks' Return on Assets, Profitability, and Growth would be 0.903 The level of confidence for the analysis was set at 95%.

The regression results show that the Financial Performance of selected commercial banks in Kabale Municipality as measured by Return on Assets, Profitability, and Growth is influenced by Accounting Techniques ($p=0.031$), Accountability ($p=0.015$), and Transparency. ($p=0.021$) The independent variables in the regression model with a positive coefficient have a direct relationship with the dependent variable. Therefore, Financial Performance increases proportionately with more use of accounting techniques. Commercial banks were more transparent while carrying out bank activities, and displaying transparency in conducting financial activities.

These findings are in line with published reports (12) suggesting that individuals believe that possession or acquisition of knowledge and skills regarding accountability services by banks will maximize the desired financial performance. This consequently enables individuals to make more informed decisions on the use of accounting standards through improved information that may include but not limited to: the location and proximity of financial institutions, availability of banking agents to provide accountability, transparency, and accounting techniques, and consumers' awareness of the promptness of services and documentation required.

Discussion

Financial performance looks at the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value-added (13). It's an approximation for financial success (14). It's also the rate an enterprise is satisfied with profits or the way they rank their performance in comparison to main competitors (15). Waddock and Graves (17) and Cochran and Wood (17) state that accounting measures of Return on equity, Return on Assets, and Return on investment is used to measure the financial performance of an organization.

Return on Capital Employed is used in finance as a measure of the returns that a company is making from capital employed. Return on Capital Employed is used to compare the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital. It is given by the ratio between the pre-tax operative profit and the capital employed (18).

Zhiwu and Knez (19) argue that the primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominant source of revenue. It is also a great source of risk to banks. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures.

Preston and Bannon (18) add that while annual audits of loan portfolios may address these risks, experience has revealed that continuous monitoring of the portfolio is the preferred approach. Identifying control breaches, anomalies, and high-risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio. The ultimate goal of a business organization is higher financial performance or maximum wealth acquisition for stakeholders (20) and achieving the organizational goal depends on performance (21).

Organizational performance is indicated by effectiveness, efficiency, the satisfaction of employees and customers, innovation, quality of products or services, and ability to maintain a unique human pool. The organizational performance variables in the present study included product quality, customer satisfaction, new product development, ability to attract employees, ability to retain employees, and the relationship between management and employees. Organizational performance means the transformation of inputs into outputs for achieving certain outcomes (22).

Performance is the relation between minimal and effective cost (economy), effective cost and realized output (efficiency), and between output and achieved outcome (effectiveness). Sales performance can be explained as all the activities or investments carried out in the firm in the given period, measured by the total amount of revenue collected for the goods sold. The effectiveness of the organization depends on the efficiency and process reliability; human resource and relations and innovation and adaptation to the environment (20).

Efficiency may be defined as the execution of operations important operations in a way that minimizes costs. Efficiency is important when the competitive strategy of the firm offers products and services at lower rates than the competitors. Human resource relation is defined as trust, organizational commitment, collective identification, and cooperation among the employees (20). These are all important in performance appraisal In the Organizational performance framework, these four aspects of performance are the key dimensions to organizational performance.

Organizations exist within certain external contexts or environments that facilitate or impede their performance. Key factors in the policy or regulatory environment, the economic, political, socio-cultural, environmental, and technological contexts, affect how the organization does its work (22).

Performance is driven internally by the organization's motivation to perform, which refers to the organizational culture, history, mission, values, and incentive systems. These factors affect the quality of work, the nature of how the organization competes, and the degree of involvement of internal stakeholders in decision-making processes. Performance is driven, in part, by organizational capacity, which exists in seven basic areas: strategic leadership, human resources, financial resources, infrastructure, programming and process management, and inter-institutional linkages.

Each of these seven capacity areas may be described in sub-components, for example in the organization's strategic leadership capacity that is understood as its structure, governance, leadership, strategic plans, and niche management. Human resources, financial resources, and infrastructure are seen as resources as well as the management of these resources (21). Organizations also have capacities that result from the relations, partnerships, and alliances they have established with other organizations referred to as inter-institutional linkages

Hypothesis H01:

The use of defined Accounting techniques did not affect the performance of studied commercial banks in Kabale Municipality. On testing results from research findings, there was a moderate relationship (correlation is 0.536) the study stood out, revealing that studied commercial banks adopt process management accounting techniques. Standard costing is a method of recording accounting transactions at their expected costs and then analyzing any differences between the standard costs and actual costs, (23). While this technique is certainly not new, information is now analyzed very fast. Using modern accounting information systems, small business owners can examine variances between actual and standard costs in real-time as soon products are manufactured, (23).

The balanced scorecard is the accounting technique that combines financial and non-financial measures to give a more holistic snapshot of the firm or individual performance (22). Management accounting balanced scorecard is relatively new, and common technique used emerged in the past 3 decades (23). While the use of the balanced scorecard technique is popular it has limitations. Even though compensation is often tied to balanced scorecard results, this may have negative consequences. Bonus motivates but if business owners are not sure of the accuracy of the balanced scorecard, its use to award compensation will be minimized or avoided. They should be cautious in using the scorecard to award compensation. Emphasizing incorrect behaviors could hinder performance instead of help improve it.

The advent of radio-frequency identification (RFID) technology in the last decade has drastically changed inventory management (24). Periodic systems record purchases of inventory in bulk and the cost of goods sold are determined at the end of the month. Perpetual systems update the company's cost of goods sold with every inventory transaction. By attaching RFID tags to products, businesses can track each inventory item throughout the company. Besides, as the company scans the RFID tags when the items are moved or sold, the accounting information system is updated. Ratio analysis is a commonly used tool of financial statement analysis. The ratio is a mathematical relationship between one number and another number.

The ratio is used as an index for evaluating the financial performance of the business concern. An accounting ratio shows the mathematical relationship between two figures, which have a meaningful relationship with each other. The ratio can be classified as follows: Liquidity Ratio, Activity Ratio, Solvency Ratio, and Profitability Ratio. But For this study, the following ratios will be considered, four key liquidity ratios, four profitability ratios, three leverage ratios, and one asset quality ratio. It is expedient for Uganda to adopt a global accounting standard because many Ugandan companies have securities from foreign companies.

Hence, the use of accounting standards will result in a better decision about the flow of economic capital. Several researchers have also identified the benefit of the use of various Accounting Techniques is deemed to produce. The adoption of International Financial Reporting Standards (IFRS) in Uganda will open opportunities for a larger finance transformation for the firm and upturn the centralization of economies of scale.

Hypothesis H02.

Accountability affected the performance of commercial banks in Kabale Municipality because there is a positive correlation between Accountability and the Financial Performance of selected commercial banks (correlation is 0.911). Thus null hypothesis is accepted. On the above hypothesis in conjunction with the second objective of the study, aimed at finding out how Accountability affects the financial performance of studied commercial banks, Supervisors of commercial banks reported that they operate under good governance and according to their mandate and objectives. In the same context, transparency also provided a basis for improved financial performance by reporting the extent to which these objectives have been achieved. Similar to the implementation of monetary policy, there has been a clear trend towards more openness in the performance of banking supervision in recent years (25).

Accountability is concerned with giving explanations through a credible story of what happened, and a calculation and balancing of competing obligations, including moral ones (23). Accountability ranges more freely over time and space, focusing as much on future potential as on past accomplishments, connecting and consolidating performance reports to plans and forecasts. Broadbent and Laughlin (26) contend that the provision of more detailed information may not automatically lead to greater accountability, but proposed public and managerial accountability model that involves; the public as principals and is concerned with issues of democracy and trust as well as managerial accountability that is concerned with the day-to-day operations of the organization. However, Goddard (27) revealed that greater accountability is often presumed to provide more visibility and transparency for organizational activity.

Accountability is increasingly being used in political discourse and policy documents because it conveys transparency and trustworthiness messages. An accounting system is a way of keeping a written record of transactions. Receipts are given for all money that is received by an organization and receipts are asked for every time money is spent. An accounting system consists of business papers, records, reports, and procedures that are used by an organization in recording transactions and reporting their effects, Goddard (27) said that an accounting system regardless of the size of the organization is designed to collect process and report periodic financial information about the entity.

The accounting system must have value in terms of making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision-making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. The ability of users to understand financial reports will depend in part on their capabilities and in part on how the information is displayed. Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them.

Null Hypothesis H03.

There is no relationship between transparency and the performance of studied commercial banks in Kabale Municipality. On testing the hypothesis, results revealed a significant relationship between, Transparency and Financial Performance of selected commercial banks in Kabale Municipality (correlation is 0.752). Thus null hypothesis was rejected. Financial transparency gives the markets more consideration and more information about agency relationships lowers the agency cost that consequently translates to better firm performance (28).

The practice of accounting standards is about building credibility, ensuring transparency as well as maintaining an effective channel of information disclosure that would foster good financial performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organization. One of the major responsibilities of the board of directors is to ensure that shareholders are provided with high-quality disclosures on the financial and operating results of the entity that the board of directors has been entrusted with governing (29).

The objectives of the enterprise, ownership and shareholder rights should also be disclosed. Many shareholders and stakeholders would be interested in information that would help them determine that management is running the enterprise with the best interest of all shareholders and stakeholders in mind and not to unduly benefit any related parties. Transparency is integral to accounting standards and higher transparency reduces the information asymmetry between a firm’s management and financial stake holder’s mitigating the agency problem in accountability (30, 31).

Today, after many scandals and financial crises, transparency in the banking sector is the debate du jour. Transparency lies at the intersection between the public’s right to know and the corporation's right to privacy. The public's right to know means the stakeholder's interest in obtaining corporation information about management and strategy. Stakeholders include employees, unions, and governments at various levels, media, customers, suppliers, financial institutions, various nongovernmental corporations with broad or narrow agendas, and the public at large (29).

The stakeholders have a legitimate claim to know vast quantities of information about the corporation's actions and intents. The corporation's right to privacy means the corporation's right to control the collection, use, and disclosure of information and management strategies related to the corporation. Financial reports include filings and documents required by law, as well as those expected by lenders, investors, employees, donors, or board members. Conclusion there is a significant positive relationship between Accounting Techniques, Accountability, Transparency, and financial performance in this study.

Good accountability practices contributed to a healthy business climate that encourages domestic and foreign investment that in turn creates confidence in the public to invest in commercial banks and thus increases financial performance in the long run and banks in Kabale municipality use accounting techniques such as standard costing in executing bank duties, balanced scorecards to evaluate and real-time inventory tool to analyze whether it has performed poorly or well in financial matters

Accountability and the performance of selected studied commercial banks

Accountability helps to demonstrate self-confidence by getting everyone involved in decision-making and ensuring that during the verification process, the issues raised are addressed amicably. The study further concludes that there is transparency At the bank and all public information is published, there is no falsification of information at the bank and All relevant documents of the bank are available for access

Transparency and the performance of selected commercial banks

Most commercial banks in Kabale Municipality are transparent to the statutory bodies and the public at large (31). Disclosure of information by commercial banks in Kabale Municipality has a financial influence on social responsibility because it communicates the benefits received by stakeholders hence this disclosure tends to increase the connection between the firm and stakeholder.

Conclusion and Recommendations

Several accounting techniques were not being used by selected commercial banks in Kabale Municipality studied. Development and maintenance of Accounting standards mechanisms are recommended. A high positive relationship between Accountability and Financial Performance of selected commercial banks in Kabale Municipality was noted.

This implies that banks in banks in Kabale Municipality should improve on their accountability mechanisms leading to enhanced financial performance. The study recommends that all stakeholders in the banking sector should be enlightened about the practice of accounting standards so that they know their rights. There is a need to find out other factors affecting the financial performance of commercial banks apart from accounting techniques, Accountability, and transparency to explore more about financial performance indicators.

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