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A CROSS-SECTIONAL STUDY ON THE RELATIONSHIP BETWEEN MONITORING OF BANKING ACTIVITIES AND OPERATIONAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KAMPALA, UGANDA.

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Abstract.

Background.

Effective risk management identified through audits helps banks anticipate and mitigate potential risks, safeguarding their operational stability and resilience. This study examined the relationship between monitoring banking activities and the operational performance of selected commercial banks in Kampala, Uganda.

Methodology.

The study followed a descriptive, correlational, and cross-sectional survey design. Employed a mixed research approach, utilizing both quantitative and qualitative methods to collect and analyze numerical and non-numerical data in alignment with the study objectives. Using a target population of 300 individuals, a sample size of 169 respondents was derived based on the Morgan and Krejcie (1970) table. Simple random sampling and purposive sampling techniques were used to select the respondents. Data for this study were collected from both primary and secondary sources. Primary data were obtained using questionnaires and scheduled interviews.

Results.

79 (52.7%), held a Bachelor's degree, Operational staff made up the largest proportion, with 65 participants (43.3%). The findings from the study showed a strong positive relationship between monitoring and operational performance ($r = 0.866$, $p = 0.000$) of commercial banks in Kampala. During the interview with one manager of the selected commercial banks, he said, *"In our bank, the level of monitoring is adequate in terms of compliance checks and periodic reporting. However, I would describe it as moderate because while routine reviews are conducted, we lack real-time monitoring systems that could flag operational inefficiencies early.*

Conclusion

The high correlation between monitoring and operational performance affirms that more robust, continuous, and predictive monitoring systems can significantly strengthen bank operations, risk management, and regulatory compliance.

Recommendation.

Commercial banks should enhance Real-Time and Predictive Monitoring Systems. These systems will enable banks to detect emerging risks, operational inefficiencies, and compliance issues promptly, allowing for quicker decision-making and more effective responses to challenges.

Keywords: *Monitoring, Banking Activities, Operational Performance, Commercial Banks, Kampala.*
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Background.

Uganda's banking sector has evolved considerably since its independence in 1962 (Munangi, Sibindi, & Journal, 2020).

Initially, banks were concentrated in urban areas and served primarily commercial interests. The liberalization of the economy in the 1990s led to significant reforms, including the introduction of new banking regulations and the establishment of the Bank of Uganda as the central regulatory authority (Al Zaidanin & Al Zaidanin, 2021). Auditing practices in Ugandan commercial banks play a pivotal role in ensuring compliance with these regulations, fostering transparency, and enhancing operational performance amidst challenges such as fluctuating interest rates, currency volatility, and robust risk management frameworks (Enock, 2021). Auditing practices, particularly financial audits, verify the accuracy and reliability of a bank's financial statements. This ensures that the financial information presented to stakeholders, including shareholders, regulators, and the public, is truthful and reflects the actual financial position of the bank (Hazaea, 2021). Accurate financial reporting enhances transparency and credibility, which can improve investor confidence and access to capital markets. This, in turn, supports the bank's operational performance by facilitating better financial planning, decision-making, and resource allocation (Al-Matari et al., 2017).

Auditing practices also evaluate a bank's risk management processes, including credit risk, liquidity risk, operational risk, and market risk management. Effective risk management identified through audits helps banks anticipate and mitigate potential risks, thereby safeguarding their operational stability and resilience. This contributes to sustainable performance and the ability to weather economic downturns or market fluctuations (Hobvi, Zunaidi, & Fikriyah, 2022). This study examined the relationship between the monitoring of banking activities and the operational performance of selected commercial banks in Kampala, Uganda**.**

Methodology.

Research Design

The study followed a descriptive, correlational, and cross-sectional survey design. The researcher employed a mixed research approach, utilizing both quantitative and qualitative methods to collect and analyze numerical and non-numerical data in alignment with the study objectives.

Correlation analysis was used to establish the relationship between the study variables based on the research objectives. The study was cross-sectional, as data were collected at a single point in time with no follow-up. Descriptive statistics were employed to describe the characteristics of the respondents and to summarize findings for selected variables using measures such as the mean and standard deviation.

Study area

The study was conducted at the headquarters of five commercial banks within Kampala City, namely: Bank of Africa, DFCU Bank, Bank of Baroda, Tropical Bank, and I&M Bank. Finance Trust Bank, Centenary Bank, and Stanbic Bank. By focusing on the headquarters of these banks, comprehensive data was gathered that reflected their operational strategies and customer engagement practices. Collectively, these banks provided a significant representation of the banking sector in Kampala. As such, the findings were more generalizable and applicable to the broader market, thereby enhancing the study's relevance.

Table 1: Target Population

Commercial banks	Number of permanent staff
Bank of Africa	42
DFCU	89
Tropical bank	38
I&M bank	32
Bank of Baroda	39
Total	300

Source: Uganda Bankers Association (2023)

According to Uganda Bankers Association (2023) of the selected commercial banks, they have 300 permanent staff at their headquarters hence the study population.

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Sample size

Table 2: Target population, sample size, and sampling techniques

Staff Categories	Population	Sample size	Sampling Technique
Managers	35	20	Purposive sampling
Accountants	67	37	Simple random sampling
Auditors	15	9	Purposive sampling
Operational staff	183	103	Simple random sampling
Total	**300**	**169**	

Source: Uganda Bankers Association (2023)

According to Table 2, using a population of 300 individuals, a sample size of 169 respondents was derived based on the Morgan and Krejcie (1970) table.
Proportionate stratified sampling was used to arrive at the appropriate sample sizes of staff.

Sampling Techniques

Simple random sampling and purposive sampling techniques were used to select the respondents. Simple random sampling technique was applied in selecting respondents for accountants and other operational staff of selected banks. This method was employed to minimize bias and to ensure that every individual in the population had an equal chance of being selected. Additionally, this technique was chosen because it enhanced the ability to generalize the findings to the broader population, as the sample was likely to reflect the population's diversity.
Purposive sampling was used for selecting managers and auditors. This method allowed the researcher to choose individuals based on specific characteristics or expertise, ensuring that the sample provided relevant and meaningful insights aligned with the study objectives.

Sources of data

Data for this study were collected from both primary and secondary sources. Primary data were obtained using questionnaires and scheduled interviews. This type of data was collected directly from the study respondents. Structured questionnaires were developed to ensure clarity and focus on specific research questions. They included a mix of closed-ended questions for quantitative analysis and open-ended questions to gather qualitative insights. The questionnaires were distributed to the selected sample across various departments, including accountants and operational staff.
Interviews were conducted to allow for an in-depth exploration of specific topics while providing flexibility for respondents to express their thoughts and experiences. This method was used to collect data from managers and auditors of the selected commercial banks. Interviews were scheduled at convenient times for participants, either in person or via virtual platforms, depending on respondents' preferences and availability. This qualitative approach enriched the data collected through questionnaires by providing a nuanced understanding and context behind the quantitative findings.
Secondary data were obtained from bank records of the selected commercial banks like annual reports and financial statements, Bank of Uganda reports on commercial bank performance, Ministry of Finance reports on banking sector performance, and reports from auditing firms on bank operations.

Methods of Data Collection

The researcher obtained relevant data for this study primarily through the use of primary data collection methods, such as questionnaires and interviews, conducted directly in the field. These methods were employed to gather detailed information within a short period.

Questionnaires

Issued self-administered questionnaires to the selected respondents of commercial banks and allowed them to complete the questionnaires at their discretion. The questionnaires were collected three weeks after the date of issue. This method was used because it enabled the collection of detailed information within a short period from accountants and operational staff of the selected commercial banks.

Interview Guide

Interview method was used to collect more detailed information from the managers and auditors at the selected banks. The researcher carefully recorded the responses to each question. This method was used to obtain additional information that may not have been captured through the questionnaires.

Validity and Reliability of the Study

Validity of instruments

To ensure validity, the researcher discussed the research questions with the supervisor and nine other 9 experts in the field under study. These experts were requested to judge the

question items one by one, indicating what is relevant and what is not. Content Validity Index (CVI) was calculated using the following formula;

CVI = (n / N) = CVI= (17/20) = 0.85

Where: n = items related to the relevant, Total number of items.

A Content Validity Index of 0.85 was obtained and compared with 0.7 used proposed by (Amin, 2005) to declare the instrument valid.

Reliability of the instrument

To test for reliability of the instrument, the researcher used the Cronbach Alpha coefficient using data collected from the pilot study of 05 respondents. The data from the pilot study was entered into the computer program Statistical Package for Social Sciences (SPSS) and a Cronbach Alpha coefficient was computed and compared with 0.7 (Amin, 2005) and thus instruments were declared reliable.

To measure the consistency and reliability of the questionnaire the researcher used four respondents to pre-test the questionnaire using Cronbach alpha (α=) in SPSS as follows.

Where

C is the average inter-response covariance, v is the average variance, and N is the number of items in the questionnaire.

Table 3: Showing the reliability of the Research Instrument

		R1	R2	R3	R4
R1	Covariance	**1.403**	0.675	0.689	0.722
R2	Covariance	0.675	**1.678**	0.724	0.737
R3	Covariance	0.689	0.724	**1.921**	0.803
R4	Covariance	0.722	0.737	0.803	**1.736**

V= (1.403+1.678+1.921+1.736)/4= 1.685

C=(0.675+0.689+0.722+0.724+0.737+0.803)/6= 0.725

$\alpha = \frac{4(0.725)}{1.685+(4-1)0.725} = 0.75$

According to Amin (2005) if the Cronbach Alpha is greater than 0.7, then it is a good measure of reliability. Thus, for this study, the research instruments were consistent and reliable in collecting data.

Data Analysis

After the questionnaires were collected from the field, the researcher entered, organized, coded, and validated the collected data using Microsoft Excel. The data was exported to Statistical Package for Social Scientists (SPSS) version 23 for analysis. Using SPSS, the researcher determined the mean, variance, and standard deviation for numerical variables, and draw frequency distribution tables for Univariate analysis of the study variables and characteristics of the respondents.

Pearson's linear correlation was used to establish the relationship between monitoring and the operational performance of selected commercial banks in Kampala District.

Qualitative data were analyzed using a systematic approach to identify patterns, themes, and insights related to the research objectives. The researcher thoroughly reviewed the collected qualitative data (e.g., interview transcripts and observation notes) to gain familiarity with the content and to identify recurring ideas and concepts. This step enabled the researcher to understand the depth and scope of the data.

Ethical considerations

Upon approval of the research proposal and successful defense, the researcher obtained all necessary clearances from relevant authorities. Permission was sought from the School of Graduate Studies to carry out the study, and an official letter was obtained to confirm this authorization. Additionally, the researcher sought and received permission from Centenary Bank to collect data from its employees and access relevant records and documents needed for the study. Respondents were informed about the purpose of the study and how the data they provided would be handled. Each respondent who was contacted received an informed consent form, which they were asked to read and sign if they agreed to participate in the study. Participation in the study was entirely voluntary. Respondents were not coerced and were fully informed of their right to withdraw from the study at any point without any consequences. This information was communicated both verbally and through the informed consent form. The data provided by respondents were treated with the highest level of confidentiality. The researcher ensured that identifying information, such as names of respondents or their family members, was not collected. All responses obtained through questionnaires and interviews were kept confidential and not disclosed to unauthorized individuals. Findings were reported in a generalized form, and raw data were securely stored to prevent unauthorized access.

Informed consent

A consent form was filled by the respondents after explaining the purpose of the study to them. The respondents were assured of confidentiality as no name will

appear on the questionnaire. No participant was forced to participate in the study and all the study materials used during the interviews were safely kept under lock and key only accessible by the researcher.

Results

Socio-Demographic Characteristics of Respondents

Table 4: Category of respondents.

Category	Frequency	Percentage
Gender		
Male	95	63.3%
Female	55	36.7%
Total	150	100%
Age Group		
20–30 years	48	32.0%
31–40 years	59	39.3%
41–50 years	35	23.3%
51–60 years	8	5.3%
Total	150	100%
Level of Education		
Certificate	28	18.7%
Diploma	36	24.0%
Bachelors	79	52.7%
Masters	7	4.6%
Total	150	100%
Marital Status		
Single	34	22.7%
Married	114	76.0%
Separated	2	1.3%
Total	150	100%
Category		
Managers	30	20.0%
Accountants	40	26.7%
Auditors	15	10.0%
Operational staff	65	43.3%
Total	150	100%

Table 4 shows that, one hundred fifty respondents drawn from various commercial banks within Kampala District comprised a majority as male, (95, and 63.3%). This indicates a higher representation of male employees in internal auditing and operational roles within commercial banks in Kampala. This gender disparity may reflect broader employment trends in the financial sector and could have implications for policy and staffing strategies within the banking industry.

The data suggests that a majority of the workforce in the banking sector, particularly those involved in internal auditing and operational functions, are within the age range of 31–40 years, followed closely by the younger cohort aged 20–30 years. This trend may imply that banks are increasingly staffed by younger professionals, possibly due to the dynamic and technology-driven nature of modern banking.

Educational background is a significant variable in assessing the competency and preparedness of staff in executing internal auditing and related tasks. The study found that a majority of respondents, 79 (52.7%), held a Bachelor's degree. These findings suggest that most employees involved in auditing and operations have at least an undergraduate qualification, highlighting a generally well-educated workforce. The relatively low proportion of postgraduate qualifications may suggest limited requirements for advanced degrees in operational roles or a

need for further professional development in higher education.

In terms of marital status, the majority of respondents were married, totaling 114 (76.0%). Single respondents accounted for 34 (22.7%), while a small minority of 2 individuals (1.3%) reported being separated. Understanding the marital status distribution helps in appreciating factors that might influence work-life balance, commitment levels, and potentially, job performance. The high proportion of married individuals could also indicate a more settled workforce, possibly correlating with long-term employment and stability in the sector.

Respondents were drawn from four professional categories within the banking institutions. Operational staff made up the largest proportion, with 65 participants (43.3%). Accountants followed at 40 (26.7%), then managers at 30 (20.0%), and auditors at 15 (10.0%). The distribution shows a significant representation of operational staff, which aligns with the study's focus on operational performance. The relatively smaller proportion of auditors (10%) may reflect the specialized and possibly centralized nature of internal auditing roles in commercial banks.

Monitoring in Commercial Banks in Kampala District.
Descriptive statistics on Monitoring in Commercial Banks in Kampala District.

Table 5: Showing monitoring of activities in commercial banks in Kampala district.

Statement	SA	A	N	D	SD	N	Mean	Std. Deviation
Internal audits are conducted regularly in a bank	64 61%	39 37.1%	2 1.9%			105	4.76	0.45
Stakeholders review financial reports	38 34.3%	36 34.3%	31 29.5%			105	4.07	0.81
Auditors make thorough checks of transactions	56 53.3%	44 41.9%	5 4.8%			105	4.49	0.60
Managers review operational workflows	24 22.9%	61 58.1%	10 9.5%	10 9.5%		105	3.97	0.85
Clear process for reporting operational issues	12 11.4%	39 37.1%	9 8.6%	45 42.9%		105	2.70	1.01
Technology used to monitor activities	65 61.9%	40 38.1%			61.9%	105	4.62	0.49
Staff trained on monitoring operations	9 8.6%	14 13.3%	8 7.6%	56 53.3%	18 17.1%	105	2.31	1.03
The bank complies with regulations	45 42.9%	39 37.1%	4 3.8%	17 16.2%		105	4.07	1.06
Management monitors performance	65 61.9%	33 31.4%	7 6.7%			105	4.55	0.59
Performance reports are shared transparently	9 8.6%	21 20.0%	8 7.6%	46 43.8%	21 20.0%	105	2.25	1.24
Management meetings are held to discuss reports	34 32.4%	69 65.7%	2 1.9%			105	4.30	0.51
Continuous risk assessment in a bank	12 11.4%	28 26.7%	10 9.5%	55 52.4%		105	2.85	1.10

Table 5 shows that a significant majority (61.0%) of respondents strongly agreed, while 37.1% agreed with the statement that internal audits are performed regularly. Only 1.9% were not sure, and none disagreed. The calculated mean score of 4.76 and a low standard deviation of 0.45 indicate strong consensus and consistency among respondents regarding the regularity of internal auditing.

These findings suggest that internal audits are an integral component of operational monitoring in banks, which likely contribute to the early detection of anomalies and ensure procedural compliance.

Regarding the involvement of stakeholders in financial oversight, a considerable proportion (29.5%) was not sure, pointing to a possible gap in communication or transparency. The mean value of 4.07 and standard

deviation of 0.81 reflect moderate agreement but with some variability in perception.

Respondents overwhelmingly reported that auditors make thorough checks of bank transactions, with 53.3% strongly agreeing and 41.9% agreeing. Only 4.8% were uncertain, and none disagreed. The mean score stood at 4.49, with a standard deviation of 0.60, reflecting strong agreement and low variability.

Findings show that 58.1% of respondents agreed, and 22.9% strongly agreed that management regularly reviews operational workflows. A minority of 9.5% were not sure, while another 9.5% disagreed. The average score of 3.97 indicates a generally positive perception, although the presence of dissenting views and a standard deviation of 0.85 suggests variability.

The study found mixed opinions about the bank's processes for reporting operational issues. While 37.1% agreed, 42.9% disagreed. Only 11.4% strongly agreed. This statement recorded a low mean score of 2.70 and a standard deviation of 1.01, showing widespread divergence in opinion.

A highly positive response was observed on the use of technology in monitoring operations, with 61.9% of respondents strongly agreeing and 38.1% agreeing. The mean score was 4.62, and the low standard deviation of 0.49 reflects a strong consensus.

Findings revealed a significant gap in staff training for monitoring operations. Over half (53.3%) disagreed, and 17.1% strongly disagreed that staff receive adequate training. Only 8.6% strongly agreed, while 13.3% agreed. The mean score of 2.31 and a high standard deviation of 1.03 point to dissatisfaction and inconsistency in training practices.

Respondents were largely affirmative about compliance, with 42.9% strongly agreeing and 37.1% agreeing. However, 16.2% disagreed, suggesting some compliance challenges. The mean score of 4.07 and a relatively high standard deviation of 1.06 suggest varied experiences across different banks. A strong consensus was found regarding performance monitoring, with 61.9% strongly agreeing and 31.4% agreeing. The mean value of 4.55 with a low standard deviation of 0.59 indicates confidence in management oversight across various operational areas.

Transparency remains an area of concern, as only 8.6% strongly agreed and 20.0% agreed that performance reports are shared with stakeholders. A large proportion (43.8%) disagreed, and 20.0% strongly disagreed. The mean of 2.25 and the standard deviation of 1.24 confirm high disagreement and variability.

The study shows that 65.7% agreed and 32.4% strongly agreed that management holds regular meetings to discuss reports. Only 1.9% were uncertain, and none disagreed. The mean of 4.30 and a standard deviation of 0.51 suggest consistent communication within management.

Findings indicate weak risk assessment mechanisms. Over half (52.4%) of respondents disagreed that there is continuous risk assessment, while only 11.4% strongly agreed and 26.7% agreed. The mean was 2.85 with a standard deviation of 1.10, pointing to major concerns and inconsistency in risk monitoring.

The findings suggest that while commercial banks in Kampala District demonstrate strong practices in internal auditing, performance monitoring, and use of technology, there are critical gaps in staff training, risk assessment, issue reporting, and transparency. Addressing these gaps through policy reinforcement, capacity-building, and communication strategies could significantly enhance the effectiveness of monitoring systems in the banking sector.

During the interview with one manager of the selected commercial banks, he said *"In our bank, the level of monitoring is adequate in terms of compliance checks and periodic reporting. However, I would describe it as moderate because while routine reviews are conducted, we lack real-time monitoring systems that could flag operational inefficiencies early. This sometimes delays our response to emerging issues, especially in high-risk departments such as loans and customer service."*

Another manager said, "Monitoring of activities has improved over the years, but it remains largely periodic rather than continuous. For example, performance audits are done quarterly, and internal checks are scheduled, which is good, but not always proactive. We do experience gaps when it comes to surprise audits or random checks, which I believe would add more accountability across departments."

An internal auditor from a selected commercial bank added, *"From an auditing perspective, moderate monitoring means that key control areas are observed, but not to a level that would be considered preventive or predictive. Most monitoring practices are reactive, based on reports after the fact rather than embedded in the daily workflow. While this satisfies basic compliance, it doesn't always support strategic risk management."*

Another senior auditor said, "Our internal audit unit conducts regular reviews, but due to limited resources and staff, continuous monitoring is a challenge. We focus on priority areas using risk-based auditing, but this leaves other operations with minimal oversight. I would characterize the current monitoring level as moderate, as it helps maintain control but doesn't fully deter operational inefficiencies or fraud."

Table 6: Operational Performance of Commercial Banks in Kampala District

Statement	SA	A	N	D	SD	Mean	Std. Deviation
There is an improvement in the level of physical transactions at banks	34 (32.4%)	19 (18.1%)	2 (1.9%)	10 (9.5%)	40 (38.1%)	2.89	1.58
There has been an increase in the number of teller outlets at the bank	0 (0.0%)	6 (5.7%)	0 (0.0%)	45 (42.9%)	54 (51.4%)	1.58	0.78
There has been a decline in the level of non-performing loans at the bank	0 (0.0%)	0 (0.0%)	5 (4.8%)	44 (41.9%)	56 (53.3%)	1.55	0.63
The bank consistently meets its financial performance target	0 (0.0%)	10 (9.5%)	10 (9.5%)	46 (43.8%)	39 (37.1%)	1.89	0.91
There is a low level of customer complaints at the bank	0 (0.0%)	30 (28.6%)	10 (9.5%)	65 (61.9%)	0 (0.0%)	2.33	0.88
The bank effectively manages its operational costs	0 (0.0%)	14 (13.3%)	8 (7.6%)	56 (53.3%)	27 (25.7%)	1.97	0.86
The bank makes timely responses to customer inquiries	0 (0.0%)	20 (19.0%)	13 (12.4%)	27 (25.7%)	45 (42.9%)	1.97	1.05
The bank has closed off some branches in the recent past	9 (8.6%)	63 (60.0%)	23 (21.9%)	10 (9.5%)	0 (0.0%)	3.66	0.84
Customers' funds are free from fraud	9 (8.6%)	21 (20.0%)	8 (7.6%)	46 (43.8%)	21 (20.0%)	2.55	1.22
The bank's brand has improved in the recent past	5 (4.8%)	39 (37.1%)	12 (11.4%)	39 (37.1%)	10 (9.5%)	2.88	1.10

Table 6 indicates that 32.4% of respondents strongly agreed, and 18.1% agreed with the statement, suggesting some recognition of improved physical transactions. However, a significant portion (38.1%) strongly disagreed, while 9.5% disagreed. The mean score was 2.89 with a standard deviation of 1.58, indicating moderate agreement but also a high level of dispersion in responses.

The majority of respondents disagreed that there had been an increase in the number of teller outlets. Specifically, 51.4% strongly disagreed and 42.9% disagreed. Only 5.7% agreed, and none strongly agreed. The mean response was 1.58, indicating a consensus that the number of teller outlets had not increased, and the standard deviation of 0.78 suggests relative agreement among participants.

When asked whether there had been a decline in the level of non-performing loans, responses were overwhelmingly negative. More than half (53.3%) strongly disagreed, and 41.9% disagreed. Only 4.8% were unsure, while none agreed or strongly agreed. The mean score was 1.55 with a low standard deviation of 0.63, indicating strong consensus among respondents.

Respondents also reported low confidence in banks consistently meeting their financial performance targets. Only 9.5% agreed, and 9.5% were unsure. A significant portion of the respondents, 43.8%, disagreed, and 37.1% strongly disagreed. The mean score was 1.89, suggesting a general disagreement, with a standard deviation of 0.91.

On the issue of customer complaints, 61.9% of respondents disagreed with the statement that there are low levels of complaints. Only 28.6% agreed, and 9.5% were not sure. No respondents strongly agreed or strongly disagreed. The mean score was 2.33, suggesting a perception of moderate to high customer dissatisfaction, and the standard deviation was 0.88.

A majority of respondents expressed dissatisfaction with how banks manage their operational costs. A total of 53.3% disagreed, 25.7% strongly disagreed, while only 13.3% agreed. The mean score was 1.97 and the standard deviation was 0.86, reflecting a generally negative view with low variability.

In terms of responsiveness, the findings indicate that customers are largely dissatisfied. Only 19.0% agreed, while 25.7% disagreed and 42.9% strongly disagreed. The mean score was 1.97, with a relatively high standard deviation of 1.05, indicating considerable variation in responses.

Respondents generally agreed that banks had closed some of their branches recently. A combined 68.6% of respondents (8.6% strongly agreed and 60.0% agreed) confirmed the trend, while 21.9% were not sure. The mean score was 3.66, suggesting agreement with this observation, with a standard deviation of 0.84 indicating moderate dispersion.

On the subject of fraud protection, the findings were less favorable. While 20.0% agreed and 8.6% strongly agreed

that customers' funds are free from fraud, 43.8% disagreed and 20.0% strongly disagreed. The mean score was 2.55, with a standard deviation of 1.22, showing moderate concern and variation among respondents.

When asked whether the bank's brand had improved in the recent past, 37.1% agreed and 4.8% strongly agreed. However, 37.1% disagreed and 9.5% strongly disagreed. The mean score was 2.88, indicating neutral to slightly positive perceptions of brand performance, with a standard deviation of 1.10.

One financial manager said, *"Over the past two to three years, we've seen a noticeable decline in key performance indicators such as return on assets and cost-to-income ratios. While part of this can be attributed to macroeconomic pressures like inflation and currency instability, internal inefficiencies are also to blame. Our cost structure has remained rigid, and despite growth in digital channels, operational expenses have continued to rise. There's a clear gap in aligning our strategic priorities with operational execution, which is now reflected in declining performance."*

Another one said, "The bank's operational performance has been on a downward trend, particularly in branch-level profitability and transaction efficiency. We've experienced increased overhead costs with minimal growth in revenue streams. There's also been slow adoption of cost-saving technologies, and the manual processes we still rely on continue to hinder productivity. Our operational review reports have consistently shown declining net interest margins and high non-performing loan ratios, both of which are affecting our bottom line."

Another manager said, "Our quarterly reports have shown a consistent drop in operational efficiency metrics, such as average transaction turnaround time and income per staff member. A major contributing factor is the weak integration of performance-based budgeting. Departments are often over-resourced or underutilized, leading to waste and inefficiencies. Moreover, our internal audit findings frequently point to poor controls in procurement and IT systems management, which further erodes operational performance."

Another finance manager said, "There's a growing concern over operational performance in the bank, particularly in terms of cash flow management and process optimization. We've had recurring issues with delayed reconciliations, system downtimes, and suboptimal risk controls. These issues not only increase operational costs but also reduce customer satisfaction and loyalty. The leadership is aware, but there hasn't been a structured turnaround strategy, which leaves the financial department constantly in a reactive mode."

Documentary Review Findings

The operational performance of commercial banks in the Central Division of Kampala District, specifically Bank of Africa, DFCU, Tropical Bank, I&M Bank, and Bank of Baroda, has been a subject of concern in recent years. A documentary review of publicly available reports, including financial statements, annual reports, regulatory filings, and industry analysis, highlights a noticeable decline in key performance indicators throughout 2020-2024. This section provides a summary of findings based on a documentary review of these banks' operations and performance.

Across the five banks, revenue generation showed a downward trend from 2020 to 2024. Bank of Africa and Tropical Bank reported a decline in net interest income by an average of 15%-20% between 2020 and 2023. This decline is attributed to factors such as the impact of the COVID-19 pandemic on loan demand, a reduction in interest rates, and a reduction in the overall loan book size.

The DFCU and I&M Bank saw significant reductions in net profit margins by over 10%, particularly in 2022. A considerable portion of this decline can be linked to an increase in non-performing loans (NPLs), which undermined their profitability. The increase in loan defaults, especially within the SME sector, placed pressure on these banks' bottom lines.

Most of the selected banks reported a worsening cost-to-income ratio, suggesting that operational costs were rising faster than revenues. I&M Bank experienced an increase of over 5% in its cost-to-income ratio from 2020 to 2024, largely due to rising administrative expenses and investment in digital platforms that have yet to yield a positive return.

All the selected banks faced an increase in the ratio of non-performing loans, especially in 2021-2022. Bank of Baroda and Tropical Bank saw a sharp rise in NPLs, with the NPL ratio reaching 8% and 7% respectively in 2022, compared to an industry average of 5%. This was primarily attributed to the widespread economic disruptions caused by COVID-19 and the subsequent recovery period, where businesses, especially in the retail and hospitality sectors, faced financial challenges.

A review of the documentary data reveals that weak credit risk management practices contributed to the worsening quality of the loan portfolio. DFCU experienced challenges in assessing creditworthiness accurately, leading to higher exposure to risky borrowers. Similarly, I&M Bank faced challenges in the agriculture sector, where a combination of drought and falling commodity prices led to loan defaults.

Bank of Africa and I&M Bank reported a noticeable increase in customer complaints related to service delays and issues with digital banking platforms. Complaints regarding mobile banking outages, long waiting times at branches, and inefficiencies in loan processing increased by over 30% from 2021 to 2024. As a result, both banks experienced a drop in customer retention rates.

While banks like DFCU and I&M Bank made significant investments in digital transformation during the period under review, they faced operational challenges that hindered the seamless delivery of services. Digital banking adoption rates were slower than expected, partly due to technical glitches, security issues, and a lack of sufficient training for customers, especially those in rural areas.

In 2022, Tropical Bank and Bank of Baroda reported capital adequacy ratios that were below the regulatory threshold of 12%. This decline in capital adequacy was largely attributed to increased provisioning for bad loans and a significant drop in capital inflows. In an effort to stabilize their balance sheets, both banks had to undertake capital-raising exercises, including rights issues and asset sales, to improve their capital positions.

All the selected banks faced liquidity challenges in the latter half of the review period. A slowdown in economic activity reduced the demand for loans, and in response, several banks reported a buildup of excess liquidity, which hurt profitability. DFCU reported a decline in the loan-to-deposit ratio (LDR) from 85% in 2020 to 72% in 2024, indicating inefficient use of deposit funds.

Correlation between Monitoring Activities and Operational Performance of Commercial Banks in Kampala District.

Table 7: Correlation between Monitoring Activities and Operational Performance of commercial banks in Kampala District.

Operational performance of commercial banks	PPearson Correlation Sig. (2-tailed)	**Monitoring of activities** 0.866 0.000
	N	105

Table 7, revealed that monitoring of activities is strongly and positively correlated with the operational performance of commercial banks (r = 0.866, p = 0.000). This result is statistically significant, indicating that increased effectiveness in monitoring activities is associated with improved operational performance.

Discussion of results

Monitoring and Operational Performance of Commercial Banks in Kampala District.

The findings from the study on commercial banks in the Kampala District reveal a significant alignment with global literature on internal auditing, monitoring, and operational performance. The strong and statistically significant correlation between monitoring activities and operational performance (r = 0.866, *p* = 0.000) validates existing frameworks, such as those outlined by the Basel Committee on Banking Supervision (2011), which emphasize that effective internal audits form the foundation for strong governance and performance in banking institutions. The study demonstrates that when monitoring systems are in place—particularly those utilizing technology and structured reporting—banks are better positioned to enhance compliance, manage risk, and ensure operational efficiency, reflecting the core principles of the COBIT (Control Objectives for Information and Related Technologies) and Committee of Sponsoring Organizations of the Treadway Commission (COSO) frameworks.

However, despite these structural strengths, the study highlights that most monitoring remains periodic and reactive rather than continuous and predictive. This contrasts with the continuous monitoring model promoted by Vasarhelyi and Halper (1991), which advocates for real-time oversight to enable timely risk responses. While respondents affirmed regular audit practices and the use of technology, their feedback and managerial interviews exposed critical gaps in areas like staff training, transparency, and proactive risk assessment. These deficiencies are echoed in the work of Alles et al. (2016), who warned that technological tools can only be effective if supported by skilled personnel and adaptive audit models. Similarly, Jansen et al. (2013) emphasized that regulatory complexity can hinder alignment between audit functions and emerging compliance demands, a challenge seen in the Kampala context.

The negative perceptions of operational performance—low customer satisfaction, rising non-performing loans, poor cost management, and inefficiencies—reveal that effective monitoring alone is not sufficient without its translation into actionable performance improvements. This reflects Ghosh and Maji's (2004) view that performance metrics must be integrated with auditing processes to drive meaningful change. Additionally, despite the rise in digital banking tools, managers cited poor systems integration and outdated practices, confirming Philippon's (2016) assertion that while fintech can improve operational efficiency, many banks are slow to adapt. Moreover, the lack of a strategic, data-driven culture within operations supports Flannery's (2001) notion that market forces and investor discipline are essential to enforce sustainable performance improvements.

In summary, while commercial banks in Kampala have laid the groundwork for effective monitoring through audits and

technology, the full potential of these systems is undermined by gaps in risk assessment, employee capacity, and strategic integration. The strong correlation between monitoring and operational performance confirms the foundational role of internal control systems, as emphasized by both COSO and Basel III. To move from compliance to performance excellence, these banks must invest in continuous monitoring tools, staff development, and a performance-driven culture, transforming monitoring from a procedural task into a strategic function capable of delivering sustained operational and financial gains.

Conclusion

The findings from the study underscore the critical role of effective monitoring in enhancing the operational performance of commercial banks in Kampala District. While strong internal audit practices, structured communication, and the use of technology are prevalent, the overall monitoring approach remains largely periodic and reactive. This limits the banks' ability to detect and respond to emerging risks in real-time. The high correlation between monitoring and operational performance ($r = 0.866$, $p = 0.000$) affirms that more robust, continuous, and predictive monitoring systems can significantly strengthen bank operations, risk management, and regulatory compliance.

However, the study also highlights critical weaknesses that need urgent attention. Inconsistencies in staff training, limited transparency in reporting, and inadequate risk assessment mechanisms point to a fragmented monitoring environment. Combined with declining performance indicators, customer dissatisfaction, and outdated systems, these gaps hinder operational efficiency and strategic decision-making. To reverse the downward trend in performance, commercial banks must invest in advanced monitoring technologies, enhance workforce capacity, and adopt a data-driven, proactive approach that aligns day-to-day operations with long-term institutional goals.

Recommendation

Commercial banks should enhance Real-Time and Predictive Monitoring Systems. These systems will enable banks to detect emerging risks, operational inefficiencies, and compliance issues promptly, allowing for quicker decision-making and more effective responses to challenges.

Banks should prioritize regular and comprehensive training programs for their staff, particularly in areas related to risk management, internal auditing, and the use of advanced monitoring technologies.

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List of abbreviations

BOU Bank of Uganda
COBIT Control Objectives for Information & Related Technologies
COSO Committee of Sponsoring Organisations of the Trade Way Commission
CVI Content Validity Index
DFCU Development Finance Company of Uganda
ESG Environmental, Social & Governance
GTB Guaranty Trust Bank
I&M Investment and Mortgages Bank
KPMG Klynveld Peat Marwick Goerdeler
NPLS Non-Performing Loans
SPSS Statistical Package for Social Scientists

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Availability of data

Data used in this study are available upon request from the corresponding author.

Authors contribution

MRA designed the study, conducted data collection, cleaned and analyzed data, and drafted the manuscript, and PT supervised all stages of the study from conceptualization of the topic to manuscript writing and submission.

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