

**THE IMPACT OF INTERNAL CONTROL SYSTEMS ON OPERATIONAL
EFFICIENCY OF SMALL AND MEDIUM ENTERPRISES.
A CASE STUDY OF CAPITAL SHOPPERS SUPERMARKET**

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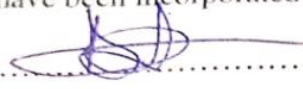


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I ATWINE DONARM,affirm that my work is entirely original and has not been previously submitted for academic recognition. I have properly acknowledged any other scholars' work that may have been incorporated into my composition.

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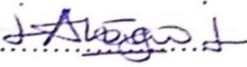
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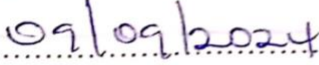
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APPROVAL

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DEDICATION

I dedicate this dissertation to my beloved parents, Mr Muhwezi Huntington and Mrs. Ahimbisibwe Florence.

ACKNOWLEDGEMENT

I extend my sincerest appreciation to the divine being for the incredible blessing of existence and imparting me with the understanding, insight, and direction essential to reaching this point of my expedition. I would like to express my utmost gratitude and respect to my beloved parents, Mr Muhwezi Huntington and Mrs. Ahimbisibwe Florence.

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LIST OF ABBREVIATIONS

CEO - Chief Executive Officer

COBIT - Control Objectives for Information and Related Technology

COSO - Committee of Sponsoring Organizations

CSR - Corporate Social Responsibility

ERM - Enterprise Risk Management

GAAP - Generally Accepted Accounting Principles

HR - Human Resources

IC - Internal Control

IT - Information Technology

KPIs - Key Performance Indicators

M&E - Monitoring and Evaluation

MIS - Management Information Systems

ROI - Return on Investment

SMEs - Small and Medium Enterprises

ABSTRACT

The study aimed at investigating the impact of internal controls on the operational efficiency of small and medium enterprises, a case study of Capital Shoppers Supermarket. The study objectives were to examine the internal control systems used by Capital Shopper's Supermarket, to assess the impact of risk assessment on the operational efficiency of Capital Shoppers Supermarket and to establish the relationship between internal control systems and the operational efficiency of Capital Shoppers Supermarket.

The study used a cross-sectional research design to relate the variables in the study. The study population consisted of 83 employees from various departments of the Capital Shoppers supermarket and a sample of 69 respondents was selected using stratified random sampling technique. The study used questionnaires as tools for data collection and data was analysed using the SPSS software. Correlation and regression were also used to analyse the relationship between the study variables.

The study found out that Capital Shopper's Supermarket utilizes various internal control systems to safeguard the organization's resources and ensure compliance with regulations such as physical controls, internal audit departments and segregation of duties, it also found out that conducting regular risk assessments has been identified as a main way of detecting and managing potential risks, including those related to supply chain, information technology, financial management, and regulatory compliance and also found out that there is a strong positive relationship (0.998) between internal control systems and operational efficiency in Capital Shopper's Supermarket.

This study concluded that internal control systems have a positive effect on the operational efficiency of SMEs through physical control measures, financial control systems, information technology control systems, internal audits, and segregation of duties being considered important systems. Regular monitoring and review of internal control systems is necessary for maintaining effectiveness. The study recommended regular review of internal control systems, documenting control systems and processes, regular employee training, investing in physical and information technology control systems, and continuous monitoring of internal control systems.

CHAPTER ONE:

INTRODUCTION

1.0 Introduction

This chapter presents an overview of the background of the study, a statement of the problem, the purpose of the study, research objectives and research questions, the scope of the study, the significance of the study, and the conceptual framework.

1.1 Background of the study

According to Ayebaze et al. (2018), SMEs are very crucial for the Ugandan economy in terms of employment and contribution to GDP. An internal control system was described by Kirsch (2015) as a collection of mechanisms that motivate either an individual or a group toward achieving a certain desired objective. Davies adds that it is a general measure of a firm's overall financial health over a given period, and can be used to compare similar firms across the same industry, or to compare industries or sectors in aggregation. According to OECD, 2019, SMEs provide the global economy with opportunities such as job creation, innovation, and economic development. On the other hand, previously shown by Hassan et al., 2020, internal controls have been seen to influence supermarkets' operations as they regulate. According to COSO 2013, internal controls are a set of policies, procedures, and mechanisms that provide reasonable assurance over safeguarding the assets, resulting in compliance with regulations and enhancing efficiency in operations. Notwithstanding, there is reasonable literature gap seen regarding the exact mechanisms through which internal controls act in influencing the operational efficiency of a supermarket.

Definition: Internal control systems concern the focus on internal control activities, the internal control environment, and even auditing of operations of the business. On the other hand, COSO 2014 defines it as a system having definite policies and procedures in order to give the management reliable assurance that the goals and objectives which it considers important to the entity will be realized. Internal controls herein apply ensure operational efficiency through the provision of accurate financial and administrative information when the business assets are secure. Nsamba referred that originally, internal control was defined by the American Institute of Certified Public Accountants in 1949 in respect of the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives concerning reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable

laws and regulations. Internal control, on the other hand, is influenced by internal stakeholders of the supermarket like the board of directors, employees, management, and regulatory environments, external ones, since they are the personnel in charge of implementing whatever internal control is set as investigated by Geroski, 1995. Clear objectives are instituted with the internal controls to form a good basis on which to base the internal control systems for the success of the supermarket. Various factors have identified by Nakandi, 2018, as being significant contributors to the gap in internal control in Ugandan SMEs.

For instance, Nakandi, (2018) established that inadequate financial input prevents SMEs from investing in internal control, which culminates in weak accounting procedures characterized by poor inventory management and poor record keeping. SMEs are also faced by poor governance arrangements that are typified by the absence of proper oversight, conflict of interest by managers, and an absence of independence from the board of directors. Additionally, SMEs usually lack competent human resources to implement and maintain an efficient internal control system. Sawyer (2016) noted that internal controls represent one of the most important elements in the process of risk anticipation and mitigation processes that are expected to occur with variability in these factors; thus, they need to be managed for efficiency. However, Chenhall & Moers, 2015 had observed that the degree at which internal controls impact the effectiveness of supermarkets remained inconsistent and unexplored more so according to the different industries such the SMEs. Effective internal control systems according to Caneghem et al 2018 enhances transparency and accountability and builds trust hence leading to an improved access to capital and business opportunity. Understanding this gap is important, as the literature is being perused to add more to our knowledge regarding internal controls on driving supermarket efficiency. In addition, the Munoz et al. (2019) literature suggested business characteristics such as the size, structure, resource control, and personnel involvement can moderate the effectiveness of internal controls in supermarkets. Despite these benefits, Smith & Tilley, 2018 allude to various barriers that many supermarkets face in putting in place set internal controls. For instance, cost constraints and resistance to change. COSO, 2015 adds that management needs to make sure of tailoring approaches for the unique needs and challenges of SMEs if it has to overcome such barriers.

FRC, (2019) adds that management and other stakeholders should support, guide, and provide resources to facilitate best practice adoption of internal controls. Therefore, this study comes in to analyze the available gap, since it investigates the effect of internal control systems on the operational efficiency of small- and medium-sized enterprises in Kampala, Uganda.

1.2 Statement of the problem

However, the internal control system is paramount to ensure the efficiency, integrity, and sustainability of the business operation. According to Ezzamel et al (2014), the SMEs are attributed by huge volumes of transactions with constant inventory management; hence, the role of internal controls is primary to the supermarket. SME's during their operations face numerous challenges such as keeping proper and accurate financial records since the market environment is ever-changing and dynamic in nature according to Kumar (2019).

In spite of research into how internal control systems influence operational efficiency in SMEs, Tarhini described an empirical research gap still existing in establishing factors contributing to internal control gaps in Uganda, such as financial constraints. While much focus has been made on the impact caused by internal control gaps to operational efficiency, limited research efforts have been directed to remedies which SMEs can employ to mitigate such gaps as described by Babalola (2015). This study aimed to fill and hence address this empirical research gap by assessing the impact of internal control systems on operational efficiency at SMEs in Uganda.

1.3 Purpose of the study

The purpose of the study was to examine the impact of internal control systems on the operational efficiency of Capital Shoppers supermarket.

1.4 Objectives of the study

To examine the internal control systems used by capital shopper's supermarket.

To assess the impact of risk assessment on the operational efficiency of Capital Shoppers supermarket

To establish the relationship between internal control systems and operational efficiency of capital shopper's supermarket.

1.5 Research Questions

What are the internal control systems used by the capital shopper's supermarket?

What is the impact of risk assessment on the operational efficiency of Capital Shopper's supermarket?

What is the relationship between internal control systems and the operational efficiency of capital shopper's supermarkets?

1.6 Scope of the Study

1.6.1 Content Scope

The study focused on evaluating the efficiency of the internal control systems in capital shoppers' supermarkets. While there are several branches, my study will focus on the head office in Ntinda, Kampala, since the other branches have the same internal controls being implemented. The research will be based on the impact of risk assessment, internal control environment, and internal control activities, as these have been chosen due to the prevailing situation of a business attributed to an unfavourable control environment and the internal control activities being relaxed.

1.6.2 Time Scope

The study focused on reviewing literature between 2019 and 2024 as the researcher believes that the literature is relevant to justify the study. This is because as a result of the COVID-19 pandemic, the supermarket introduced new internal controls such as access controls and physical audits on stock.

1.6.3 Geographical scope

The study was carried out at Capital Shopper's supermarket Ntinda branch Plot 2 Dastur Street in Kampala Central Division in Uganda.

1.7 Significance of the study

It, therefore will add considerably to the existing research and body of knowledge by showing how the internal control system affects operational efficiency for SMEs. This will widen the theoretical and empirical development of literature, seeing that diverse studies have been carried out using different variables.

This study also will allow future researchers to find out the relationship between internal control systems and operational efficiency. The study will also allow other SMEs within the industry to gauge the effects of the internal control system and its effect on operational efficiency.

The findings of the study will help policymakers like the government and other stakeholders in coming up with a tangible policy that may support strategies regulating internal control systems and operational efficiency in Small and Medium-Scale Enterprises.

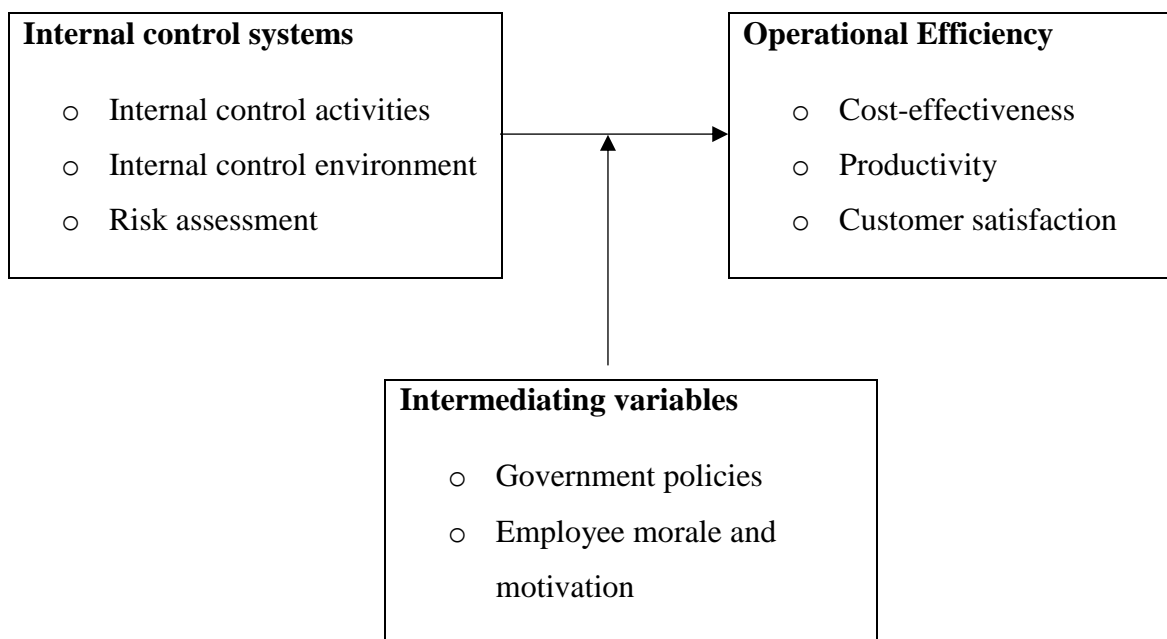
1.8 Justification

Supermarkets present a very important industry that deals in huge supplies of groceries and consumer goods; thus, they have to enhance customer service as well as operation efficiency. Because of fierce competition, various studies have been conducted and aimed at establishing the contribution of internal controls to the operational efficiency within the SME to provide relevant information to the manager and stakeholders. Therefore, studying the relevance of internal control systems with regard to SMEs' operational efficiencies addresses an academically relevant issue but also offers practical implications with regard to enhancing performance and competitiveness within a retail industry context. The aim of this study is to try to establish whether there is any linkage between internal controls and operational efficiencies.

1.9 Conceptual Framework

INDEPENDENT VARIABLE

DEPENDENT VARIABLE



Source: Ogetange (2017) and modified by researcher

The framework above was used as the basis of this study to assess the effectiveness of internal control systems on operational efficiency in capital shopper's supermarkets. The internal control systems were the independent variable of the study, while the dependent variable was the efficiency operation. Independent variables under study here were internal control systems, which is an umbrella term that covers internal control activities, internal control environment, and risk assessment; whereas the dependent variable of operational efficiency comprised of

cost efficiency, productivity, and customer satisfaction. Intervening variables included government policies, employee morale and motivation, communication, and coordination.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents both theoretical and empirical literature on the subject of internal control systems and their impacts on operational efficiency in SMEs. The literature and conceptual theories concerning the study were discussed in detail, underlined and identified as well as explained the research gaps that the proposed study will address, and concluded.

2.1 Key definitions

2.1.1 Small and Medium Enterprises (SMEs)

According to the Uganda Investment Authority, UIA 2021, "It describes them as those businesses that maintain revenues, assets, or several employees below a certain threshold. A business whose total sales do not exceed UGX 150,000,000 in a given year."

According to the Uganda Investment Authority - UIA, 2020, SMEs are defined as a business whose maximum turnover is UGX 360 million and/or a maximum asset base of UGX 360 million, besides businesses with a minimum of 5 and a maximum of 100.

According to PSFU, 2017, SMEs are defined as enterprises with a turnover not exceeding UGX 1 billion, or with personnel not exceeding 100.

The MSC defines SMEs as "enterprises with expected turnover or gross revenues of up to UGX 450 million and/or having a total asset value ranging from UGX 15 million minimum to UGX 1.5 billion maximum."

According to the Ministry of Trade, Industry and Cooperatives-2019, SMEs are defined as those with up to 100 employees and annual turnover up to UGX 360 million.

2.1.2 Internal control systems

Internal controls represent the policies, procedures, and practices that an organization puts in place to make sure business operations are efficiently carried out in a controlled effective manner Bizmanualz, 2021.

COSO defined internal controls as a process, influenced by an entity's board of directors, management and other personnel that provides reasonable assurance regarding the following:

effectiveness and efficiency of operations; reliability of financial reporting; compliance with applicable laws and regulations.

Internal controls are defined by the Government Accountability Office as "the organization, policies, and procedures that are used to help assure an entity operates in an effective and efficient manner, use its resources responsibly, has done a suitable job of complying with laws and regulations, and provides reliable, accurate, and timely preparation of accounts, financial, and other reports for internal and external use" (GAO, 2014).

Internal controls are defined by the Institute of Internal Auditors: The IIA (2016) as a part of an organization's governance, risk management, and internal control system that provides reasonable assurance regarding the effectiveness and efficiency of achieving organizational objectives, compliance, and appropriate risk management.

2.1.3 Operational efficiency

Operative efficiency, according to Nejatian et al. (2015), is the ability of providing any firm, organization, or entity with whatever they are selling or providing with the least waste of effort or cost. It can reflect an organization's performance concerning cost of production or productivity in the application of resources toward the output given and objectives.

According to the business dictionary, revised 2017, operational efficiency refers to "the ratio of output to input in an operational process or the capability to deliver goods and services to customers with minimal waste of resources."

The International Organization of Standardization (2011) defined operational efficiency as the competence of an organization to supply products or services that amply meet or exceed customer requirements while optimally using resources with the smallest possible waste or damage to environment.

2.1.4 Control activities

The control activities make up the veracity of an organization's internal control system and are applied to mitigate risks to ensure desired goals are achieved in view of SME objectives.

The Committee of Sponsoring Organizations defined control activities as "the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address risks in achieving the entity's objectives." COSO 2013.

Control activities, according to the Institute of Internal Auditors, refer to the "policies and procedures besides the prudent management decision-making and actions that may help assure the achievement of objectives". Such control activities would give reasonable assurance that business practices are conducted in conformity with applicable laws, regulations, and ethical standards.

As defined by the Public Company Accounting Oversight Board (PCAOB, 2010), control activities refer to the policies and procedures intended for assuring appropriate implementation of management directives, including developing and putting into effect preventative and detective controls.

Control activities, for the American Institute of Certified Public Accountants, represent "policies and procedures that help ensure management directives are carried out by integrating risk management into the organization's systems and processes."

2.1.5 Control environment

The control environment refers to the overall culture, values, attitudes, and leadership tone that set the foundation for an organization's internal controls and it includes the attitudes and behaviours of an organization's management and staff toward the importance and effectiveness of internal controls.

According to the Committee of Sponsoring Organizations (COSO, 2013), the control environment is defined as the foundation for all other components of internal control, setting the tone of an organization and influencing the control consciousness of its people.

The Institute of Internal Auditors (IIA, 2016) defines a control environment as the set of standards, processes, and structures that provide the foundation for carrying out internal control across the organization, including the commitment to integrity and ethical values, as well as the competence and accountability of personnel.

The American Institute of Certified Public Accountants (AICPA, 2016) describes the control environment as the attitude, awareness, and actions of the board, management, owners, and other stakeholders regarding the importance of internal control and its effectiveness in achieving the organization's objectives.

The Governmental Accounting Standards Board (GASB, 2018) defines a control environment as the set of tone-at-the-top, values, attitudes, and actions that define the culture of an organization and that influence the control consciousness of its people

2.1.6 Risk assessment

Risk assessment is the process of identifying, analysing, and evaluating potential risks or threats to an organization's operations, reputation, or other objectives.

According to the International Organization for Standardization (ISO, 2018), risk assessment is defined as the overall process of risk identification, risk analysis, and risk evaluation.

The Institute of Risk Management (IRM, 2018) defines risk assessment as the process of identifying, analysing, and evaluating risk using a structured approach that involves identifying potential risks, assessing their likelihood and impact, and prioritizing actions to manage or mitigate those risks.

The Society for Human Resource Management (SHRM, 2020) defines risk assessment as a process that identifies, analyses, and evaluates the potential risks that an organization faces in its operations, and then develops strategies to reduce or eliminate those risks.

The National Institute of Standards and Technology (NIST, 2018) defines risk assessment as the process of identifying, estimating, and prioritizing information security risks that could affect the organization and its assets, and producing a risk management strategy.

The International Risk Management Institute (IRMI, 2019) defines risk assessment as the process of identifying and analysing potential events that may negatively impact an organization.

2.2 Theoretical review

A theory is a set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Creswell,2006). This study used four theories to explain the influence of the independent variables on the dependent variable. The theories are the Agency theory, Stewardship theory, Positive Accounting Theory and the Attribution Theory.

2.2.1 Agency Theory

According to Jensen and Meckling, 1976, agency theory is a theoretical framework describing the relationship between the principal and their agent in the context of a contract. According to

Eisenhardt, 1989; Kannegiesser, 2021, this theory assumes that agents behave in an opportunistic manner and act in self-interest. The ability to align interests of agents and principal's demands mechanisms. Fama & Jensen (1983) add that the relationship between the principal-agent is usually characterised by information asymmetry in the sense that the principal does not have perfect information about the activities of the agent. With that in mind, Kim & Barnett (2017) also agree with Jensen & Meckling (1976) that principals use monitoring and incentive mechanisms to manage agent's actions. The last reason behind the rise of the principal-agent problem involves different risk preference by the principal and the agent, Ross (1973). Walker (2017) argues that incentive mechanisms, such as performance-based pay, stock options, and bonuses, might align the principal-agent's interests. Other agency costs that the principal incurs are monitoring and enforcing of contracts, while costs related to the agent are, for instance, effort in the work put in to meet the principal's objectives according to Mankiw (2014). Agency theory, by Peterson (2020), postulates that optimal contracts depend on the risk preferences of the two parties and information asymmetry which may be present, and also possibilities of opportunism by either party. Kosnik (2021) insists that the theory ensures that agents have more information than principals, the information asymmetry adversely affecting the principal's ability to monitor whether or not their interests are properly served by agents. Martinez and Ghosh 2021; Williamson 1985 Other factors affecting the principal-agent relationship include the degree of trust, communication, and social norms in the contractual environment.

This theory by McCahery et al 2016 has found its application in contexts such as corporate governance, strategic management as well as finance. The current research was conducted to see the impacts of meditation on the level of stress encountered during by Smith et al 2020. They further state that the applicability of this theory in understanding the internal organization of a company and its linkage to the external stakeholders also remains valid. Critics like Hasan &Abed, 2017, have enforced the same point but went ahead to comment on the simplicity of the theory in defining human behaviour culture, and social norms. The theories of Mason and Simoneaux, 2019, connected the agency theory to other theories like the stewardship theory and resource dependency theory showing contrasts to the agency theory. Agency theory has thus provided a useful framework through which the principal-agent relationship can be analysed in the context of internal control activities and their consequential impact on financial transparency, accountability, and reporting. For instance, Ma & Li (2020) report that the

utilization of internal control activities in SMEs can be viewed as one means for aligning the interests of principals and agents; so states agency theory.

Application of internal control activities, updated by Choudhary & Sharma (2020), helps reduce the information asymmetry between the principal and the agent that leads to opportunism. Kim & Yi 2019; Eisenhardt 1989 The application costs of internal control activities can be regarded as one type of agency cost that needs to be managed by the principals. Alleyne and Huda (2021) analysed that the incentive mechanisms such as bonuses, and performance-based pay that align the interests of principals and agents can be utilized in a big way for the implementation of internal control activities. The US Government Accountability Office (2014) added that the quality of communication between principals and agents may affect the effectiveness and success of the internal control activities and, hence financial transparency and reporting. However, Buttigieg et al. (2017) supported Fama (1980), stating that observing regulatory policies could be a means of reducing the level of opportunistic behaviour as well as information asymmetry between principals and agents. In implementing internal control mechanisms which apply the agency theory, Pasalodos et al. (2020) indicated aligning the goals of principals and agents, enhancing improvement in SMEs' operational performances.

McKinsey, 2021, supports the view that this theory has particular relevance with SMEs who have complex decision-making processes and multiple stakeholders. According to Glaister 2015, the effectiveness of the internal control mechanisms depends on such issues like levels of communication, trusting, social norms which are essential in dealing with the issues of agency within the context of the SMEs. The theory also observes, according to Kulendran (2019), that any incompleteness of information about the relationship, interests, or work performance of the agent described is adverse and can be a moral hazard. Moral hazard affects the agent's output in many different ways such as not having the relevant knowledge regarding what has to be done and not doing what exactly the agent is appointed for according to Kaur 2021.

In this regard, Abdul-Malik et al. state that agency theory, therefore, operates on the supposition that both the principals and agents are rational and that contracting is a technique to attain wealth maximization. This theory applies to the study simply because, according to Haneef et al. (2017), internal control is one of the many mechanisms applied in business toward

addressing the agency problem of reducing agency costs that affect the overall performance of the relationship as well as benefits of the principal.

2.2.2 Positive Accounting Theory

On the contrary, the positive accounting theory does acknowledge that individuals as well as SMEs are generally acting in their self-interest; this can hence account for financial decision-making. Watts & Zimmerman (1978) argue that Pittman & Fortin (2018) perceive that research in accounting bears either of two labels, either positive research or normative research. According to the view of Dechow & Skinner, 2000, the theory postulates that firms will select those accounting policies and procedures which maximize their reported profits that consequently maximizes shareholders' wealth and, therefore, the performance of a firm. Positive accounting theory, as stated by Watts & Zimmerman (1986), suggests that financial reports are used by various stakeholders to decide, and companies will, in turn, manipulate reporting to meet the needs of those groups. McGee & Preobragenskaya (2018) postulated that according to this theory, accounting policies, among other factors, are controlled by regulating requirements, industry norms, and SME objectives. Scott 2006; and Learn Accounting 2021 established that positive accounting theory has practical applications since it enables a firm to evaluate the possible gains of accounting policies on financial and operational performances, therefore aiming at making informed decisions about reporting practices.

Putri and Octaviani 2021; Watts & Zimmerman 1978 observed that Positive Accounting Theory assumes a firm is motivated by ego; this manifests in terms of the desire to maximise one's wealth. Payne 2021, echoing Watts 20013, iterates the same because factors such as management compensation and even political costs are inclusive in the theory of positive accounting theory in influencing firms' behaviour in financial reporting. It also underlines the importance of economic and social incentives for the reporting and disclosure behaviour of firms. Martinez-Ferrero et al. state that Pearson showed that the positive accounting theory signals managers to undertake decisions that could optimize their economic welfare and this may lead to financial reporting information manipulation. Accruals and earnings management techniques may be considered, by Li (2018), part of the firms' response to their contracts, tax regulations, and capital markets.

Amran et al. (2014) explain that understanding those factors leading to accounting choices by SMEs are particularly important in the choice between historical cost and fair value accounting methods. Whittington and Pany (2012) add that financial reporting can be used as an underlying

explanation for why SMEs make specific accounting choices about the choice between two different accounting methods, historical cost versus fair value accounting methods. Also, Lee and Cheong 2017, added that accounting information could also be used to understand the reasons behind SMEs accounting decision, such as why they choose historical cost or fair value accounting techniques. Ahmed et al 2021, further showed that it could also be used to understand why SMEs make certain accounting choices, such as why they choose between historical cost and fair value accounting methods. This, according to Hindawi & Yin, 2019, the positive accounting theory derives that managers because of their selfish interest in profits these actions induce them to engage in internal controls to prevent the fraud or misappropriation of the firm's assets. They further argue that according to the positive accounting theory, the implementation of the internal controls helps reduce the agency costs that emanate from information asymmetry problems between the management and the external stakeholders.

Krishnamoorthy and Mahapatra (2020) present an interesting argument that internal control systems can be a response to demands of external stakeholders such as investors, creditors, and regulatory bodies-a precept that chimes with the importance of social incentives in shaping financial reporting behaviour. This is because the institution of internal controls would help create a competitive advantage for organizations through enhancing their prestige of being more open about their financial matters and, therefore, less information asymmetry with external stakeholders. Gabel et al (2018) postulate that positive accounting theory can predict the design of internal controls since, in reality, they vary between organizations due to industry-related factors. Moreover, the positive accounting theory postulates that the manager having greater ownership of the firm are less likely to install internal controls, but a low ownership manager may attempt to install internal controls in order to reduce agency costs and protect the stakeholder interests. Internal controls, according to Gabel (2018), reflect the management's attempt to align their interest with the interest of the firm's stakeholders. The implementation of internal controls, as suggested by Ken et al., 2021, enhances the credibility of financial reporting, thus reducing the cost of capital by increasing investor confidence.

According to Yin et al., 2019, the design and implementation of internal controls are shaped by the firm's strategic objectives and external environment. In other words, this is in congruence with the assumptions that were previously made that economic and social incentives have an impact on financial reporting behavior.

2.2.3 Attribution theory

Coutts et al. (2012) describes that attribution theory is a social psychological theory regarding how individuals explain events and behaviours as well as ascribe cause to events and behaviors. Contemporary attribution theory research, according to Malle and Nelson (2017), addresses how information from the social environment is employed in explaining events and behaviors. According to Hughes (2021), when the evaluators believe that comparable persons would have acted differently in a particular situation, then the evaluators tend to attribute the responsibility of an outcome to a person. Paget and Collins (2019), on the other hand, argue that if evaluators believed that comparable persons would have acted similarly, then the evaluators would attribute the situation to be responsible for the outcome. According to Ross, the fundamental attribution error is what attribution theory calls an overwhelming bias of people to attribute the behavior of others to dispositional factors rather than situational ones. In fact, Jones and Harris (1967) confirm Ross's assertion that what is described as a fundamental attribution error occurs when people overestimate the dispositional factors and underestimate the situational ones in attributing to the behavior of another person. The fundamental attribution error is an often-studied error of attribution, consisting of the tendency for people to ascribe other people's behaviours either to dispositions or internal factors, rather than to situational or external factors. Jones and Harris, 1967-end.

The attribution theory, according to Robinson & Smith, 2017, helps explain how individuals interpret and explain events, for instance, the causes of success or failure and its impacts on their behaviour. Moreover, individuals make attribution about events based on three dimensions, locus of control, stability, and controllability by Robbins & Judge, 2019. Kharb 2017, continues to note that people are prone to a desire for self-esteem enhancement and people are likely to attribute their successes to causes within them and their failures to external causes. Fein et al. 2019 also attribute it to the fact that this theory explains how perceived causes of success or failure can affect future behaviour and motivation, in general consequences like lowered or heightened self-esteem. According to the principles of attribution theory, Bradley & Hagtvedt, 2015; Sedikides & Alicke, 2012, people internalize their success, blaming external contingencies when failure occurs, but for others, they do the opposite. Processes of attribution are, in turn, influenced by internal controls and serve as a guide to perceptions of causality and responsibility over events such as success or failure.

As an instance, one study discovered that internal controls affect the locus of control in individuals, which then subsequently influences the attribution style. Therefore, McNally, 2021

adds that this theory postulates that individuals attribute failure or success to internal or external factors based on locus of control which is influenced by the design and implementation of the internal controls. The existence of appropriate internal controls, including segregation of duties and procedural checks on financial reporting, would supposedly foster perceptions of controllability and internal locus of control for events that surround the firm. According to Kaplan & Schulz, 2017, in making the internal controls work, the management should provide managers with more information and feedback for higher perceptions of controllability, to evoke a feeling of responsibility and personal agency. As noted by Wang et al. (2015), the employees' perception in the effectiveness of internal controls can influence the employees' work behaviour, and attributional processes whether the incidents are reported or personal responsibility for failures taken. The theory also suggests that whether or not internal controls exist will also affect an individual's attributions such as positive and negative events.

Ho et al., (2020) support Wang (2015) by approving that, indeed, the quality of internal controls has implications for trust and accountability within the firm, as well as perception of control over work outcomes consistent with the theory. There is an endless need for information to impact or cause any change in events obtained through regular feedback from the use of internal controls Makori (2021). In a similar vein, Oyinlola and Oyeniyi opined in their work dated 2017 that there is an unending need for information to impact or cause any change in events obtained through regular feedback in the use of internal controls. According to Albrecht and Albrecht, 2018, the effectiveness of internal controls can impact perceptions of accountability and responsibility for incidents, such as fraud or financial misreporting, consistent with responsibility attribution processes. Critically, Huang & Wang, 2017, explain that internal controls are those favorable to transparency and communication between managers and employees and could lead to high perceptions of work results being stable and controllable. Internal controls lead decision-making and are context-dependent or affected by other factors like culture and SME norms hence affecting the design and implementation of internal controls.

Roberts & Berg 2019 confirm that the setting up and implementation of internal controls reflect the impact of social norms and expectations that influence SMEs to behave as suggested by the theory.

2.3 Internal control systems utilized

Internal control systems help in the efficient management of SMEs since they facilitate a reduction in the risks of fraud, error among other irregularities. Adhikari & Tondeur, 2021. According to COSO, 2013, Internal Control-Integrated Framework, Internal control systems are defined as a process that is designed to provide reasonable assurance regarding the realization of three objectives including effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations. Kumar, 2021, concluded the fact that internal control systems have some benefits for SMEs since they would promote operational efficiency where resources and time are not being wasted. KPMG, in 2019, tried to explain that well-designed internal controls assure that the processes operate with functional efficiency such that there are no unnecessary delays, bottlenecks, or duplications, and problems and exceptions are identified promptly and acted upon effectively. Finally, a study carried out by KPMG in 2019 suggested that increased controls provide assurance over improved performance and productivity due to cost reduction. According to McKinsey & Company in 2017, a study done by the Harvard Business Review states that firms which focus on employees' well-being have increased productivity, reduced costs, and higher profitability. At the same time, a recent study by Smith 2021, is tempted to justify that this way of productivity enhancement leads to better profitability for firms. Various SMEs adapt various internal control systems including segregation of duties, access controls, inventory controls, cash handling controls, physical security controls and budgetary controls among others.

Segregation of duties: This refers to the sharing of financial responsibilities among various employees, ensuring that no single employee has acquired too much authority to dominate financial transactions. For instance, one employee may be entrusted with invoice approval, another employee responsible for effecting payment, and a third employee responsible for bank reconciliation. Internal controls will contribute to operational effectiveness for SMEs in the following ways: For example, Sawyer & Dittenhofer (2016) argue that separation of duties and access controls are the substantial elements of a sound internal control system because it increases accountability and at the same time reduces the chances of various risks associated with the processing of financial transactions and information security management. Furthermore, Schneider (2021) justifies the argument by arguing that segregation of duties is in a better position to reduce errors, fraud, and other misappropriations since not all vital processes are dealt with by a single individual. Access control features minimize data theft or unauthorized data access that, in turn, protect data loss through elimination or destruction.

Sawyer (2021) indicates that an inventory control mechanism ensures that the business keeps sufficient stock supply and, thus, it can deliver various customers' orders on timely basis. Finally, Marsh & McLennan Agency LLC, 2019 assert that cash handling controls aggressively prevent cash misappropriation, resulting in improved profit margins and optimal control of cash flow.

In any case, though, budgetary control management enables managers to make more prudent business decisions by highlighting the areas in which current performance is not meeting expectations. As such, a recent study by the Association of Certified Fraud Examiners says, "the implementation of management review controls can reduce the risk of occupational fraud by as much as 50% ". ACFE 2021. Equally, physical security controls prevent possible losses that may emanate from theft or damaging of assets.

2.3.1 Internal control activities

It has been explained by the Committee of Sponsoring SMEs of the Treadway Commission - COSO, 2013, that internal control activities are the policies and procedures put in place to provide reasonable assurance, among other factors, that the organization operates its objectives efficiently and effectively, that financial reporting is presented reliably, and also that there is compliance with all applicable laws and regulations. According to the COSO, 2013, "effective internal control is part of the bigger view of sustainable business success, especially for smaller entities." They also add that effectiveness of activities of internal control is relevant for the success of the SME, whether as a means of preventing or detecting errors, irregularities, and fraud that could affect the operations and financial reporting of the organization. Manuel and Chen 2020 insist that among all, the internal control activity which is considered most valuable is the control environment.

On the other side, KPMG 2019 defines it as the control environment sets the organization's tone in respect to the consciousness of controls and the importance of internal controls. COSO 2013 further supports that the control environment acts an underpinning for rest of the internal control activities and impacts the effectiveness of internal controls throughout a given organization. The PCAOB expresses, "Control activities directly mitigate identified risks in the risk assessment process and are necessary to provide reasonable assurance regarding the reliability of financial reporting" (PCAOB, 2021). According to Bourkas et al. (2020), control activities vary with the nature of operations being run within an organization, its size, and its intricateness. Segregation of duties, physical controls, IT controls, and authorization

procedures are examples of control activities. The principle one considers mainly the segregation of duties within internal control systems. This control, according to Krambia-Kapardis et al. (2021), involves financial tasks being subjected or apportioned among employees to prevent any single individual from exercising the most dominant influence on the occurrence and recording of financial events. An earlier study on internal control and corporate governance within SMEs, conducted by Petrovic et al. (2015), determined that the majority of SMEs in the Republic of Serbia did not have adequate separation of duties. Moreover, this was bound to render them more susceptible to the occurrence of risks such as fraud, among other disorders in the execution of activities of the SME in question. Further studies by Adu-Gyamfi et al (2019), established that segregation of duties was positively related to the operational efficiency of SME's. Therefore, basing on such studies the researcher will conduct further studies to analyse the effect of internal controls on operational efficiency. Risk assessment is also another vital internal control activity that follows the establishment and assessment of risks likely to impact the organization's objectives, Rajan, 2018. To this aspect, Klausner, 2018 has stated that risk assessment is one of the major parts of any study as it gives the assurance of recognising proposed risks and dealing with them accordingly.

Knecht and Wolfe, 2016 expound that the mechanism of risk assessment in a company involves the identification of probable risks, analysing the occurrence along with its impact, and developing strategies that could be laid down for managing those risks. A risk assessment enables firms to note risks appropriately and measure up with proper measures for reduction or eradication of those risks. According to Jackson, 2021, harm to respondent's privacy, confidentiality, and data protection are one of the major risks in the dissertation study. The obtained data from the respondents shall be ethically secured by the researchers in compliance with laws and guidelines.

Jones et al., 2020 identified that the data privacy risk is reduced significantly by informed consent and anonymization techniques. Also, data protection and safe data storage means to secure the data from unauthorized access. According to Kirkpatrick et al. 2019, critical area of assessment of risks are biases in the collection and analysis of data. A person who is carrying a study must be aware of their personal biases and one must keep their research design and the analytical method objective to study.

According to Ma et al. (2019), such risks can be minimized through the application of appropriate sampling techniques, cleaning, and validation checks accordingly. Other potential

risks assessment may relate to the research context itself: the risk of bias regarding the introduction of a social context, political issues, or cultural factors into the study context. The steps of the risk assessment procedure must also include the possibility of conflict of interest in accordance with Vasek et al (2020). This is because a researcher might get influenced by personal or professional interests with regard to their findings. Therefore, it lies under the responsibility of the researcher to identify a possible conflict of interest and communicate the same to the stakeholders to maintain transparency. According to Tsang and Kwan, 2020, the integrity as well as credibility of the research depends on the ability of the researcher to minimize or mitigate the possibility of a conflict of interest. Information and Communication: This, according to Albrecht et al (2016), is an internal control activity that ensures that material financial and non-financial information is communicated in a timely manner, is relevant to the business and can be relied upon.

This activity ensures that adequate information is provided to employees for them to perform their duties optimally, and further that the information at a proper level flows through the organisation to and from its relevant stakeholders accordingly (COSO, 2013).

Information and communication are the most important ingredients that create success in any internal control. This dissertation study aims to investigate the effect of internal controls on operational efficiency in SMEs. As said by Babbie, 2017, in collecting data required by the research study, there is a need for communication to inform the research process. The various SMEs will have unique internal controls in terms of procedures and policies that protect the interests of the firm.

2.3.2 Internal control environment

According to Bizfluent (2021), the success of internal controls in making the operations of SMEs more efficient requires an effective internal control environment. The internal control environment provides an enabling setting in which internal controls are performed in order to have successful operational efficiency at SMEs. Deloitte (2021) describes the internal control environment as the overall attitude, policies, and procedures defining the organization's internal controls. They also identify that an appropriate internal control environment provides the basis for good internal controls of SMEs, while on the other hand, a poor environment erodes internal control effectiveness. The internal control environment comprises existing traditional control measures along with modern technological tools and information systems that assist in the smooth going of an organization's operations as well as its financial reporting processes. The

internal control environment can be viewed holistically, whereby the identification and management of both operational and strategic risks could be improved to help achieve better operational efficiency in SMEs.

Deloitte, 2021 attempted to evaluate the control environment as it assessed the structure of SME, management philosophy, and personnel policies of the SME to identify the factors that affect the effectiveness of internal control. The conclusions were that SMEs, which had a strong control environment, clearly indicated lines of authority, formal policies, and procedures coupled with strong ethical values that made them compliant with the internal control procedures and policies. On the contrary, Deloitte established that SMEs, which have a weak control environment, become less effective since the employees tend to undermine or ignore procedures due to lack of clear direction and accountability. Therefore, the effectiveness of internal controls for SMEs depends on the strengths of the internal control environment, which should be assessed first before implementing or revising internal control procedures. In this regard, Deloitte is agreed upon by the researcher. According to COSO 2013, assessment of the internal control environment in SMEs involves reviewing factors such as the tone set by the senior management, the extent of oversight by the board of directors, and the accountability culture existing within the company.

As Kim and Park open up, SMEs that establish a positive control environment are best placed in realizing their strategic goals since they enhance the running efficiency of internal control policies. In the studies of Daramola and Osibanjo, an effective internal control environment by nature is an ongoing process that needs regular monitoring, reviewing, and making necessary changes since its objective is to keep in place a culture of accountability. They agree that it can be viewed in a manner that a solid internal control environment may lead to reduced operational errors and risks, enhancing the overall quality of operational performance. In the opinion of Ngugi and Kimani (2018), SMEs must strive to create an environment of positive control which will reinforce ethical behaviour, governance, and risk management.

According to KPMG, 2017, 'the internal control environment of a firm encompasses several factors that may affect operational efficiency including the organization's governance structure, management philosophy and personnel policies.' Additionally, it was suggested that the culture of an organization can further have a major effect on its internal control environment and thereby on operational efficiency. Extant literature indicates that an internal control environment encouraged by the culture of transparency and accountability leads to operational

efficiency and effectiveness in the internal control of processes. According to KPMG (2017), in complementing the culture, top management sets the general direction of the firm and greatly influences the internal control environment. The institution said that leaders of entities keen on internal control and risk management facilitate smooth transaction of business through effective facilitation. Conversely, it shows that the main factor that an SME's operational efficiency as well as the strength of its internal control environment relies on is the level of oversight by its board of directors.

They attempted to explain the relevance of Top management in relation to a fact that, when the board provides effective oversight, it may ensure the alignment of business processes within an organization with its strategic objectives, which might lead to improved operational efficiency. The effectiveness of the internal control environment may also be influenced by the personnel policies. In other words, the internal control efficiency may be complemented by other variables such as personnel policies. In this respect, KPMG 2017 estimated that 'SMEs can establish a stronger internal control environment and improve overall operational efficiency by adding the right people, training and encouraging ethical practices among employees '. According to KPMG, 2017, SMEs will have the added advantage of having an appropriate system of internal controls that enhances trust and reduces transaction costs, hence improving the confidence level of various stakeholders such as investors, customers, and suppliers, making the company efficient to operate. Kruger & Naidoo (2020) have cited that a strong internal control environment helps SMEs reduce the risk of fraud, errors, and non-compliance with the law-all of which ultimately result in further stability and efficiency of their financials and overall operations. As Greco et al. (2019) explained in support of the concern of KPMG, SMEs with strong internal control practices have it in them to secure better asset protection, deter financial loss, and increase operation efficiency. According to Barasa and Masinde, 2020, SMEs achieve the improvement of operational efficiency by instituting a robust internal control environment that encourages continuous improvement and innovation. The practice of regular monitoring of internal control by Greco et al., 2019, guides SMEs in identifying areas where improvement or optimization can be achieved; this brings in better efficiency and competitiveness in the operations. Barasa and Masinde, 2020 added that the risk assessment process of an organization consequently has a significant bearing on the effectiveness of its internal control environment whereby through the risk assessment process, the internal controls become flexible to evolve with the risks both within the internal operations and the business environment.

Through adequate risk assessment, SMEs can identify and prioritize the risks that may probably occur and establish appropriate controls consistent with the business goals, thereby supporting operational success. Periodic reviews of the internal control environment allow the SMEs to realize areas where there is a need for improvement or optimization in order to gain efficiency and competitiveness.

2.3.3 Risk assessment

A study by Mashwama & Fatoki, 2021, confirms that SMEs should adhere to an effective risk assessment procedure through the identification, evaluation, and prioritization of the risks likely to be incurred for sustainability in internal controls. They also say the main goal of risk assessment is to provide a means for SMEs to recognize and reduce potential risks that could pose negative impacts on business processes, Husser (2019). According to the Association of Certified Fraud Examiners, 2019, an internal control system is a process which entails a plan or set of policies, procedures, and controls that are placed to ensure proper financial reporting, asset protection, and adherence to all laws and regulations in an organization. SMEs apply risk assessment as an integral part of their internal control systems in order to find and eliminate risks which may hamper the effectiveness of their controls. Bainbridge, 2019 points out that an essential interlink do exist between the sustainability of SME and respective internal control systems protecting the organization's assets and ensuring compliance, inhibiting fraud amongst other financial malpractices. Risk assessment is advantageous to SME since they can recognize and reduce potential risks that would devastate their objectives of sustainability. The process of risk assessment aids the SME to realize and reduce the risks which can potentially lead to devastating results against their general objectives of sustainability.

According to the Association of Certified Fraud Examiners, 2019, risk assessment process is defined as the identification of risks that may hinder the ability of the organization to realize its objectives.

The risks can either be strategic, operational, financial, or compliance risks and all these risks can be identified by the SMEs through the use of scenario analysis, checklists, and brainstorming techniques. With the consideration of various risks and the evaluation of the occurrence of those risks, along with their influence, small businesses can use their resources more effectively. Small businesses have the ability to use various tools-such as risk matrices-in order to assist in evaluating and managing their different risks. Carrying out appropriate risk assessments consists of assessing the adequacy of existing controls while establishing where

enhancements can be made. This can allow organisations to identify the areas changes and improvements that need to be made within their internal control systems.

Association of Certified Fraud Examiners assert that "SMEs can make use of Control Self-Assessment tools in assessing the effectiveness of controls".

Lastly, in terms of developing risk responses against the identified risks, an SME may elect to carry out risk mitigation, risk avoidance, risk transfer, or risk acceptance as a risk response - based on prioritisation and availability of resources. To this end, they can employ a risk-cost-benefit test. To do that, SMEs can make use of the process of risk assessment which is all about finding the problems that could arise and then coming up with a way of managing these problems. They can list down as to what actions they would be taking to reduce risks and to keep their internal control systems working wonders. Their plans can be implemented with the use of tools such as risk registers and action plans. On the contrary, the Association of Certified Fraud Examiners (2019) even added that SMEs have the chance to adopt the strategies for risk assessment for continuous evaluation and monitoring of the internal control systems existing within the firms.

Thus, it allows for the inclusion of changes that might be necessary in the risk management plans, arising due to any fluctuation in the business environment. SMEs will be able to enrich their approach towards risk management through numerous techniques, which will measure and monitor the sufficiency of their practices, such as control performance indicators and key risk indicators. In other words, SMEs can integrate the tools into their various risk management plans as means of enhancing their effectiveness in responding to identified risks. The Association agrees when Husser, 2019, adds that the implementation of risk assessment is beneficial to the SMEs as the latter will be in a position to identify and respond to emerging risks. Most of the newly emerging risks are unpredictable and may originate in any quarter of the business environment. In this regard, SMEs can mitigate the impacts of those risks by applying modern techniques such as environmental scanning and scenario analysis.

Risk assessment can assist SMEs in meeting relevant laws and regulations. It is through compliance risk identification and assessment that SMEs may be able to remain compliant with relevant laws and regulations, and various tools, such as compliance audits and assessments, may serve to support the SMEs in respect of the compliance issue. According to the Association of Certified Fraud Examiners (2019), with ongoing growth, SMEs are becoming susceptible to changes in technology. While SMEs go about reaping the benefits of integrating technology

into their activities, a host of technology-related risks also began to stare them in the face, such as cyber-attacks, leakage of data, and system failure. SMEs have the opportunity to apply appropriate technology risk assessment and penetration testing to minimize the impact from potential risks. It is recommended that small businesses embrace these tools for enhanced cybersecurity posture. It can also help the SMEs in controlling those human-related risks that are caused by or through some action or inaction of the employees, customers, or any other stakeholders. SMEs will use different risk management tools for this purpose, including fraud risk assessment and background checks.

The Association of Certified Fraud Examiners, 2019, says SMEs should embed the culture of risk awareness into the workplace by providing risk educative and training programs that encourage employees towards establishing and managing these risks.

2.4 Relationship between internal controls and operational efficiency of SMEs

The control system and operational efficiency go hand in hand. According to Christensen, 2019, internal controls are policies, procedures, and practices instituted by SMEs in ensuring their activities are carried out in an efficient, effective, and controlled manner. Dittenhofer, 2017 further avows that with the implementation of efficient internal control systems, enhanced operational efficiency can be achieved through reduced waste, minimal errors, and irregularities, thus increased productivity. Jin (2020) established that internal control systems ensure that resources can be optimally allocated through proper use and avoiding their misappropriation. Thus, operational effectiveness is enhanced since business operations are appropriately harmonized in terms of the inclusion of needed adjustments. This system assists in accomplishing organizational goals through the mitigation of fraud, misstatement, and other resultant aspects of non-compliance with adequate presentation and accountability of financial statements.

With the assurance of improvement in customer experience, businesses can realize revenue growth of around 10 to 15% since happy customers will always be return customers and refer others to the business. Optimized business processes can ultimately raise the output and satisfaction levels of employees. In other words, employees will no longer have to bear in mind routine tasks, as automation reduces the manual workload, and they are able to pay more attention to more complex and value-added tasks. This will not only improve morale and motivation but can also lead to increased job satisfaction and retention. A report by Gallup, 2014, revealed that "companies with high employee engagement have 21% higher productivity

than those with low employee engagement and in agreement with the state of the Global Workplace, 2017)".

Additionally, optimized processes will also contribute to cost savings by reducing operating costs, wastages, and efficient resource use. This can be done through smoothing of the processes and identification of inefficiencies to reduce the operational cost of doing business and appropriately manage the resources. Deloitte, 2016; Kumar et al, 2021: a study showed that digitizing the supply chains allows companies to achieve cost savings as high as 75%.

Moreover, internal control systems establish mechanisms of accountability, as an organization is able to trace activities and make people accountable for what they have done. Dallavia et al. (2018) establish that the internal control structure allows organizations to achieve the highest ethical ideals that enhance their reputation and imagery before the public. Through observing ethical ideals, organizations avoid possible legal and financial repercussions linked with non-compliance. Internal control systems enable decision-making. Internal control systems provide assurance that reliable and timely information to enable informed decisions is available. With the display of appropriate financial information, the internal control system aids managers in arriving at evidence-based decisions due to reduced instances of errors, hence an increase in the confidence level while arriving at a decision.

Organizations incur operational costs when internal control systems are in place. Any such system requires designing, implementation, and monitoring for which investments in technology, training, and personnel become necessary. For small organizations, with limited availability of resources, this may assume much greater significance. The cost of compliance may be too high. Internal control systems may at times be complicated and increase the workload of personnel with a consequent slowing down of efficiency. Thus, the systems of internal controls are important and therefore, very vital for the organizations to minimize risks and put them on the path of compliance matters, but their establishment comes at great resources and high investments. Knechel & Salterio (2016) established that for the organizations to have internal control systems in place and ensured that they are working and in place to mitigate against risks and compliance matters, then great resources and investments were required.

Implementation of internal control systems encompasses a broad array of activities: policy and procedure formulation, training, monitoring, and assessment, among others. The cost of implementation of internal control systems can involve software and technology solutions,

staff, and consulting fees. However, the benefits accrued after some time outweigh the cost of establishing effective internal controls. Some of the benefits associated with effective internal controls include improvement in efficiency within an organization as well as minimization of fraud and errors.

Internal control systems help organizations to prevent fraud, errors, and other forms of financial misstatement.

In addition, internal control systems help organizations to prevent financial misstatement like fraud and errors. With the help of an effective internal control system, an organization can identify and prevent fraudulent activities for safeguarding of organizational assets. Kiprotich et al. argued that the organizations with strong internal control system have less possibility of fraudulent activities as well as misappropriation of organizational assets. They have also added that proper internal control measures can protect the organizational assets with the help of proper segregation of duties, proper authorization procedures as well as proper recording procedures. Internal control systems also contribute to the observance of legal and regulatory requirements.

When proper internal controls are applied, an organization is better positioned not to fall out with the law for non-compliance, which may include some penalties and fines. Further, compliance with the legal and regulatory requirements decreases reputational risk for the organization. The internal controls systems make companies adhere to the various legal and regulatory obligations. As a result, organizations are able to maintain a good reputation in the market, which benefits their long-term success. Similarly, according to Nazir et al. (2019), internal control systems assure organizations an ability to maintain a good reputation in the market and, therefore, to achieve long-run success by adhering to all the legal and regulatory requirements or obligations. As pointed out by Attaran and Attaran (2017), internal control systems will give organizations an appropriate mechanism to make organizations more responsible and open. These will outline step-by-step procedures to ensure that information dissemination and decision-making processes are appropriately made within organizations. This helps managers conduct follow-ups on how tasks progress and informs stakeholders on what takes place. As indicated earlier, accountability and transparency go together and offer the base to avoid risks associated with poor management that may affect an organization's success.

Such a relationship is important to study between internal controls and operational efficiency for the success of SMEs, in that effective internal controls enhance efficiency in operations since such systems enhance resource allocation, optimize business processes, minimize risks, enhance communication and coordination, and promote accountability. Therefore, this gives the researcher a need to study the relationship between internal control systems and operational efficiency.

2.5 Conclusion

From the reviewed literature, it appears that multiple scholars agree that a correlation exists between an SME's operational efficiency and its internal control systems (Arnold *et al* 2019). After obtaining empirical evidence from the research context, it was possible to confirm the relevance of internal control systems to ensure operational efficiency.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design and methodology that was used in the study. It included the research design, study population, sample size and selection, sampling techniques, data collection methods, data collection instruments, reliability and validity of instruments, data analysis, data presentation and analysis of the data collected.

3.1 Research design

The study used a cross-sectional research design to relate the independent variable which was internal controls to the dependent variable which was the operational efficiency of SMEs. The study context adopted a correlation and regression design to relate the independent variable which was internal controls to the dependent variable which was the operational efficiency of SMEs.

3.2 Study population

The target population for the study involved all employees, most importantly the employees in the accounting department, stores department, customer care department, Information and Technology department, Human resource department, and administration department in Capital Shoppers supermarket. The total population size of the study was 83 people in the Ntinda branch.

3.3 Sample size

The sample size covered respondents from Capital Shoppers supermarket who were currently working in the selected departments. The sample size was determined using the formula of Yamane's (1967). The sample size for the study was 69 respondents.

3.4 Sampling technique

The study used a simple random sampling technique and a stratified sampling method during the selection of the respondents for the study. The simple random sampling technique gave an equal chance for any of the employees to be included in the study while the purposive sampling method ensured that the respondents for the study were chosen based on their knowledge about the purpose of the study.

3.4.1 Simple Random Sampling

With this method, all the employees of the entire population were given equal chances to be included in the sample size since the target respondents were engaged or had an idea about the internal control systems in the area of study and were in a better position to respond to the research questions appropriately.

3.4.2 Stratified Sampling

The study population was divided into smaller strata based on their departments. A random sample of 69 respondents was then selected for the study from the chosen strata.

3.5 Data collection instruments

The study used a self-administered questionnaire as a data collection instrument. The study used a close-ended questionnaire because it enabled the researcher to obtain full information concerning the study variables without biases. A set of statements was given to each respondent that was filled in by the respondent. The questionnaire was stated based on the 5-point Likert scale suggested by Likert (1932) including Strongly agree (5), Agree (4), Not sure (3), Disagree (2) and strongly disagree (1).

3.6 Data sources

The study used both primary sources and secondary sources of data.

3.6.1 Primary sources

In this study, the methods used to collect primary data included questionnaires. The primary data was collected through the use of self-administered questionnaires that were given to the respondents.

3.6.2 Secondary data

Secondary data was collected through a review of past reports from the Uganda Investment Authority such as progress reports, written research, electronic journals, and newspapers.

3.7 Validity and Reliability

3.7.1 Validity

To ensure the correctness of the data collection instrument, the research tools were presented to the supervisors to ensure that all irrelevant questions were removed before the final questionnaire was approved for the study.

3.7.2 Reliability

The reliability of data collection methods was important that researchers needed to consider when designing studies. This was done by analysing the available results and judging the quality of the study. Reliability was tested using Cronbach's alpha.

3.8 Data analysis and presentation

The data gathered was analysed and presented using descriptive statistics. Primary data was captured and processed using a statistical package for social sciences (SPSS) by coding the data and analysed it to come up with conclusions.

3.9 Ethical consideration

The participants were informed that they had the right to withdraw from the study at any time. The researcher explained to the respondents that the information provided about this research study would be kept confidential and for academic purposes only. This was put in place by ensuring that respondents didn't indicate their names but the researcher used code numbers to describe the respondents.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0. Introduction

This chapter presents the findings of the study based on the response rate of 84%.

Table 1: Response rate

Details	
Questionnaires that were provided	69
Questionnaires that were responded	57
Questionnaires that were not responded	12

This table shows that 69 questionnaires were distributed out of which 57 questionnaires were respondents and only 12 questionnaires were returned when not filled in.

4.1.1 Gender of the Respondents

Table 2: Gender of the respondents

The table below shows the gender of the respondents.

The gender of the respondents		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	25	43.9	43.9	43.9
	Female	32	56.1	56.1	100.0
	Total	57	100.0	100.0	

Primary data, 2024

Out of the 57 respondents, 25 (43.9%) were male, while 32 (56.1%) were female. This indicates that the majority of the respondents were female, making up 56.1% of the total sample. This indicates that the majority of the respondents were female.

4.1.2 Age of the Respondents

Table 3: Age of the respondents

Age of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	20-30 years	7	12.3	14.0	14.0
	31-40 years	35	61.4	70.0	84.0
	Above 41 years	8	14.0	16.0	100.0
	Total	50	87.7	100.0	
	Missing	7	12.3		
	Total	57	100.0		

Primary data, 2024

Out of the 57 respondents, 7 (12.3%) were aged between 20-30 years, 35 (61.4%) respondents aged between 31-40 years, those aged above 41 years accounted for 8 (14.0%) of respondents and 7 (12.3%) responses were missing, which brings the total to 57. This indicates that the majority of the respondents were in the 31-40 age group, representing 61.4% of the total.

4.1.3 level of education of the respondents

Table 4: Level of education of the respondents

Level of Education		Frequency	Percent %	Valid percent %	Cumulative percent %
valid	Certificate	11	19.3	19.3	19.3
	Diploma	22	38.6	38.6	57.9
	Bachelors	19	33.3	33.3	91.2
	Masters	4	7.0	7.0	98.2
	Others	1	1.8	1.8	100.0
	Total	57	100.0	100.0	

Source: Primary data

Out of the 57 respondents, 11 (19.3%) held a certificate, 22 (38.6%) had a diploma, and 19 (33.3%) had a bachelor's degree. Additionally, 4 (7.0%) respondents had a master's degree, while 1 (1.8%) fell into the 'others' category. This indicates that most respondents held a diploma, making up 38.6% of the total sample.

4.1.4 Position held by the respondents

Table 5: Position held by the respondents

Position held		Frequency	Percent	Valid percent	Cumulative percent
	Cashier	7	12.3	12.3	12.3
	Inventory clerks	27	47.4	47.4	59.6
	Sales associates	17	29.8	29.8	89.5
	General manager	2	3.5	3.5	93.0
	Store manager	1	1.8	1.8	94.7
	Departmental manager	3	5.3	5.3	100.0
	Total	57	100.0	100.0	

Source: Primary data, 2024

Out of the 57 respondents, 7 (12.3%) were cashiers, 27 (47.4%) were inventory clerks, and 17 (29.8%) were sales associates. Additionally, 2 (3.5%) held the position of general manager, 1 (1.8%) was a store manager, and 3 (5.3%) were departmental managers. This indicates that most respondents were inventory clerks, making up 47.4% of the total sample.

4.1.5 years of experience of the respondents

Table 6: years of experience of the respondents

Position held		Frequency	Percent	Valid percent	Cumulative percent
	Below 4 years	21	36.8	36.8	36.8
	5-10 years	34	59.6	59.6	96.5
	11-15 years	2	3.5	3.5	100.0

	Total	57	100.0	100.0	
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Source: Primary data

Out of the 57 respondents, 21 (36.8%) had held their position for below 4 years, 34 (59.6%) had been in their role for 5-10 years, and 2 (3.5%) had held their position for 11-15 years. This indicates that most respondents had been in their position for 5-10 years, making up 59.6% of the total sample.

4.4 Internal controls used by Capital Shoppers Supermarket

Table 7: Internal controls used by Capital Shoppers Supermarket

INTERNAL CONTROL SYSTEMS	Mean	Standard deviation
Implementing effective internal control activities is essential to ensure that financial information is reliable and timely.	5.00	0.000
Internal control activities include policies and procedures that are designed to prevent errors and fraud.	4.74	0.444
Adequate documentation of transactions is a key component of internal control activities.	4.82	0.428
Continuous monitoring and evaluation of internal control activities are essential to identify weaknesses and gaps in the system	5.00	0.000
The tone at the top, or the culture of the supermarket, is an important factor in promoting and reinforcing effective internal control activities	4.77	0.423
Training and education of employees is important to ensure that they understand the role they play in the internal control system.	4.86	0.480
The use of technology can enhance and strengthen internal control activities.	4.75	0.434
Internal control environment		
The internal control environment sets the tone for the supermarket and plays a vital role in ensuring effective control systems.	4.75	0.437
A strong control environment relies on management's commitment to ethical values, integrity and competence.	4.70	0.462

Managers are responsible for establishing an environment that is conducive to the prevention and detection of fraud.	4.44	0.501
An effective control environment requires the involvement of employees at all levels and across all functions of the supermarket.	4.44	0.501
The control environment is enhanced by providing employees with adequate resources to perform their jobs effectively.	4.70	0.461
Communication is an essential element for promoting and sustaining an effective control environment.	4.41	0.496
Risk Assessment		
A thorough risk assessment helps to identify potential areas of vulnerability and strengthens the internal control system.	4.44	0.501
Risk assessment enables upper management to anticipate and respond to potential risks before they occur.	4.44	0.501
Regularly conducting risk assessments makes it possible to adjust internal controls in response to emerging risks that could harm the supermarket.	3.88	1.266
Adequate resources must be allocated to ensure that effective risk assessments are conducted.	4.17	0.841
Consistent communication is essential to ensure that everyone is aware of the risks affecting the supermarket.	3.88	1.001
Ongoing monitoring of risks ensures that new potential risks are identified and addressed promptly.	4.18	0.826
Regular updates to the risk assessment ensure that risks continue to be identified and evaluated.	5.00	0.000

Based on the study findings, 100% of the respondents showed that implementing effective internal control activities is essential to ensure that financial information is reliable and timely, with a mean of 5.00, 100% of the respondents stated that continuous monitoring and evaluation of internal control activities are essential to identify weaknesses and gaps in the system, also with a mean of 5.00, 96.4% of the respondents agreed that adequate documentation of

transactions is a key component of internal control activities, resulting in a mean score of 4.82, 97.2% of respondents supported that training and education of employees is important to ensure they understand their role in the internal control system, which had a mean score of 4.86 and for the statement that the tone at the top, or the culture of the supermarket, is an important factor in promoting and reinforcing effective internal control activities received a mean score of 4.77, with 95.4% agreement.

Furthermore, 95 % of the respondents believe that the use of technology can enhance and strengthen internal control activities, and the internal control environment sets the tone for the supermarket, both with a mean score of 4.75, 94.8% of respondents agreed that internal control activities include policies and procedures designed to prevent errors and fraud, with a mean score of 4.74, 94% of respondents believed that a strong control environment relies on management's commitment to ethical values, integrity, and competence, and that providing employees with adequate resources enhances the control environment, both with a mean score of 4.70, 88.8% of the respondents agreed that managers are responsible for establishing an environment conducive to preventing and detecting fraud, and that an effective control environment requires the involvement of employees at all levels, with both statements having a mean score of 4.44 and 88.8% of respondents also agreed that a thorough risk assessment helps identify potential areas of vulnerability and strengthens the internal control system, and that risk assessment enables upper management to anticipate and respond to potential risks before they occur, both with a mean score of 4.44.

Also, 80% of respondents agreed that ongoing monitoring of risks ensures new potential risks are identified and addressed promptly, resulting in a mean score of 4.18, 76% of the respondents were in agreement that regularly conducting risk assessments to adjust internal controls in response to emerging risks and consistent communication to ensure awareness of risks affecting the supermarket had a mean score of 3.88.

The findings indicate an agreement among respondents on the importance of the role of internal control systems in ensuring operational efficiency and financial reliability as seen from the consistently high mean scores, respondents recognize the importance of well-implemented internal control activities, including reliable financial documentation, continuous monitoring, and employee training, all essential for identifying gaps and improving efficiency.

4.5 The influence of internal controls on Operational efficiency

Table 8: Influence of internal controls on operational efficiency

Cost-effectiveness	Mean	Standard deviation
Effective internal control systems can lead to cost savings in the long term by reducing the likelihood of fraud and errors.	5.00	0.000
An optimized internal control system can help prevent financial losses resulting from errors and fraud.	4.89	0.462
Identification and reduction of employee errors can lead to increased efficiency in business processes and cost savings.	4.74	0.444
Effective segregation of duties can help prevent collusion, which can ultimately lead to cost savings in fraud prevention efforts.	4.82	0.428
Implementing an automated internal control system can lead to higher efficiency and cost savings in the supermarket.	5.00	0.000
A comprehensive internal control system can help to minimize the costs of audits and compliance efforts.	4.77	0.423
Assessing the effectiveness of internal control systems periodically can help to prioritize and optimize the allocation of resources.	4.77	0.598
Productivity		
Effective internal controls can help employees to work more efficiently and productively.	4.75	0.434
A well-designed internal control system can encourage employees to follow established procedures and avoid unnecessary delays.	4.75	0.437
Internal controls can help prevent errors and omissions that can slow down work processes.	4.70	4.62
Employees may be more productive when they have access to complete and accurate financial and operational information enabled by internal control systems.	4.44	0.501
Strong internal controls can provide a clear chain of accountability and increase the transparency in processes, leading to increased productivity	4.44	0.501
An effective internal control system can help ensure compliance with applicable laws and supermarket policies that increase productivity.	4.70	0.462

Internal controls that emphasize appropriate delegation of authority provide for employee productivity and innovation	4.41	0.496
Customer satisfaction		
Effective internal controls can lead to better financial management hence leading to lower costs for services and higher customer satisfaction.	4.44	0.501
Well-designed internal controls ensure that customer data and confidential information are kept private, leading to increased trust and satisfaction among customers.	4.44	0.501
Internal controls can help to ensure timely and accurate delivery of services or products, increasing customer satisfaction	3.84	1.279
Effective internal control systems prevent billing errors, leading to timely and accurate invoicing and ultimately more satisfied customers.	4.14	0.854
Internal controls that emphasize quality control at every stage of production can result in consistently high-quality products that meet customer expectations.	3.88	1.001
Complaints from unsatisfied customers can be minimized through effective internal controls that prioritize high customer service levels	4.18	0.826
An internal control system that emphasizes continuous improvement can lead to better customer experiences, which can improve overall satisfaction with the supermarket.	5.00	0.000

Results from the above table 100% of the respondents agreed that effective internal control systems can lead to cost savings in the long term by reducing the likelihood of fraud and errors, achieving a mean score of 5.00, 100% of the respondents recognized that implementing an automated internal control system can lead to higher efficiency and cost savings in the supermarket, also resulting in a mean score of 5.00, 97.2% of respondents indicated that an optimized internal control system can help prevent financial losses resulting from errors and fraud, with a mean score of 4.89, 96.4% agreed that effective segregation of duties can help prevent collusion, ultimately leading to cost savings in fraud prevention efforts, resulting in a mean score of 4.82 and 94.8% of respondents noted that identification and reduction of

employee errors can lead to increased efficiency in business processes and cost savings, with a mean score of 4.74.

Moreover, 95% of respondents agreed that a comprehensive internal control system can help minimize the costs of audits and compliance efforts, achieving a mean score of 4.77, 88.8% of respondents believed that assessing the effectiveness of internal control systems periodically can help prioritize and optimize resource allocation, with a mean score of 4.77, 84.8% of respondents recognized that effective internal controls can help employees work more efficiently and productively, leading to a mean score of 4.75, 84.8% agreed that a well-designed internal control system can encourage employees to follow established procedures and avoid unnecessary delays, with the same mean score of 4.75 and 80% of respondents indicated that internal controls can help prevent errors and omissions that can slow down work processes, with a mean score of 4.70.

Additionally, 80% of the respondents also agreed that strong internal controls can provide a clear chain of accountability and increase transparency in processes, with a mean score of 4.44, 76% of respondents believed that internal controls can help ensure compliance with applicable laws and supermarket policies, which increases productivity, achieving a mean score of 4.70, 73.6% agreed that internal controls that emphasize appropriate delegation of authority provide for employee productivity and innovation, with a mean score of 4.41, 68.8% of respondents recognized that effective internal controls can lead to better financial management, resulting in lower costs for services and higher customer satisfaction, achieving a mean score of 4.44 and 68.8% agreed that well-designed internal controls ensure that customer data and confidential information are kept private, leading to increased trust and satisfaction among customers, with the same mean score of 4.44.

Similarly, 64.8% of respondents indicated that internal controls can help ensure timely and accurate delivery of services or products, increasing customer satisfaction, with a mean score of 3.84, 66.4% agreed that effective internal control systems prevent billing errors, leading to timely and accurate invoicing and ultimately more satisfied customers, achieving a mean score of 4.14, 62.4% of respondents noted that internal controls that emphasize quality control at every stage of production can result in consistently high-quality products that meet customer expectations, with a mean score of 3.88, 70% of respondents believed that complaints from unsatisfied customers can be minimized through effective internal controls that prioritize high customer service levels, achieving a mean score of 4.18 and 100% of respondents agreed that

an internal control system that emphasizes continuous improvement can lead to better customer experiences, which can improve overall satisfaction with the supermarket, achieving a mean score of 5.00.

Therefore, the findings indicate that respondents recognize the value of internal control systems in enhancing operational efficiency and reducing costs. Also, that internal controls aim to ensure transparency, prevent billing errors, and improve customer satisfaction.

4.6 To find out the Influence of the intervening variables on the study

Table 9: the influence of the intervening variables on the study

Intervening Variables	Mean	Standard deviation
Policies can require supermarkets to adopt internal control systems to prevent fraud and errors and enhance financial accountability.	4.89	0.363
Certain government policies mandate additional checks and inspections to ensure that internal control systems within supermarkets are functioning properly.	4.75	4.34
Government policies may require supermarkets to implement internal controls that are specifically tailored to prevent the exploitation of public funds.	4.75	4.37
Certain government policies may require businesses to take extra precautions to protect confidential or sensitive information through internal control mechanisms.	4.70	4.62
Set guidelines and standards for internal control systems can influence how supermarkets maintain documentation or follow specific procedures.	4.44	0.501
Government policies can guide the detection and reporting of improper activities, such as fraud, malpractices, and ethical concerns within the supermarket.	4.44	0.501
Focus on transparency, accountability, and efficiency may require supermarkets to prioritize internal control systems to ensure compliance with such policies.	4.70	0.462
Employee morale and motivation		

Positive employee morale through effective communication and employee engagement is a critical factor in the success of an internal control system.	4.41	0.496
Employee motivation can boost internal controls by promoting a culture of accountability and increased awareness of the importance of internal controls.	4.44	0.501
Well-developed internal control systems can provide job security, leading to increased motivation among employees.	4.44	0.501
Positive employee morale can lead to more effective internal control training and compliance efforts since employees are more likely to engage with such efforts.	3.84	1.279
Effective internal controls can give employees confidence in knowing that they are working for a supermarket that values the protection of assets.	4.14	0.854
Employees who are motivated and engaged can be effective in identifying control weaknesses and making recommendations for improvement.	3.88	1.001
Positive employee morale can reduce the risk of fraud by promoting honesty and integrity in the workplace, leading to a strong internal control environment.	4.18	0.826

The study found that 100% of the respondents agreed that policies can require supermarkets to adopt internal control systems to prevent fraud and errors and enhance financial accountability, resulting in a mean score of 4.89, 100% agreed that certain government policies mandate additional checks and inspections to ensure that internal control systems within supermarkets are functioning properly, with a mean score of 4.75, 97.5% of respondents recognized that government policies may require supermarkets to implement internal controls specifically tailored to prevent the exploitation of public funds, with a mean score of 4.75, 96.5% of respondents agreed that certain government policies may require businesses to take extra precautions to protect confidential or sensitive information through internal control mechanisms, achieving a mean score of 4.70 and 91.5% of respondents believed that set guidelines and standards for internal control systems can influence how supermarkets maintain documentation or follow specific procedures, with a mean score of 4.44.

Likewise, 91.5% agreed that government policies can guide the detection and reporting of improper activities, such as fraud, malpractices, and ethical concerns within the supermarket, also achieving a mean score of 4.44, 84.5% of respondents indicated that a focus on transparency, accountability, and efficiency may require supermarkets to prioritize internal control systems to ensure compliance with such policies, with a mean score of 4.70, 80.6% of respondents agreed that positive employee morale through effective communication and employee engagement is a critical factor in the success of an internal control system, resulting in a mean score of 4.41, 80.6% recognized that employee motivation can boost internal controls by promoting a culture of accountability and increased awareness of the importance of internal controls, with a mean score of 4.44 and 80.6% of respondents noted that well-developed internal control systems can provide job security, leading to increased motivation among employees, achieving a mean score of 4.44.

67.5% agreed that positive employee morale can lead to more effective internal control training and compliance efforts, as employees are more likely to engage with such efforts, with a mean score of 3.84, 66.5% of respondents believed that effective internal controls can give employees confidence in knowing that they are working for a supermarket that values the protection of assets, resulting in a mean score of 4.14, 64.5% of respondents agreed that employees who are motivated and engaged can be effective in identifying control weaknesses and making recommendations for improvement, with a mean score of 3.88 and 69.5% of respondents recognized that positive employee morale can reduce the risk of fraud by promoting honesty and integrity in the workplace, leading to a strong internal control environment, achieving a mean score of 4.18.

The study indicates that the respondents strongly agree on the significant impact of government policies and employee morale on the of internal control systems in Capital shoppers supermarket.

4.7 Relationship between internal controls and operational efficiency

Correlations			
		INTERNAL_CONTROL SYSTEMS	OPERATIONAL_EFFICIENCY
INTERNAL_CONTROL SYSTEMS	Pearson Correlation	1	.998
	Sig. (2-tailed)		.000
	N	48	47
OPERATIONAL_EFFICIENCY	Pearson Correlation	.998	1
	Sig. (2-tailed)	.000	
	N	47	50
. Correlation is significant at the 0.01 level (2-tailed).			

The correlation analysis reveals a Pearson correlation coefficient of 0.998 between internal control systems and operational efficiency, which is highly significant at the 0.01 level (2-tailed). This near-perfect positive correlation suggests an extremely strong relationship exists between internal controls and operational efficiency.

The coefficient value of 0.998 indicates that as the effectiveness of internal control systems improves, operational efficiency also tends to increase correspondingly. This high correlation means that improvements in internal control systems are almost perfectly associated with improvements in operational efficiency. Given the significance level of 0.000, which is below the conventional threshold of 0.01, the relationship between internal control systems and operational efficiency is significant.

This indicates that the observed correlation is unlikely to have occurred by chance and is a reliable indicator of the relationship between these variables.

4.7 Regression analysis between internal controls and operational efficiency

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.102	1	6.102	12161.710	.000 ^b

	Residual	.023	45	.001		
	Total	6.125	46			
a. Dependent Variable: OPERATIONAL_EFFICIENCY						
b. Predictors: (Constant), INTERNAL_CONTROL_SYSTEMS						

The ANOVA table illustrates the results of a regression analysis evaluating the relationship between internal control systems and operational efficiency. In this analysis, the Sum of squares for regression is 6.102. This value quantifies the amount of variability in operational efficiency that is explained by the internal control systems. The Sum of Squares for Residuals is 0.023, reflecting the variability in operational efficiency that is not accounted for by the regression model. The Total Sum of Squares is 6.125, representing the overall variability in operational efficiency. The Mean Square for Residuals is 0.001, obtained by dividing the Sum of Squares for Residuals by its degrees of freedom ($df = 45$).

The F-value of 12161.710 and this extremely high F-value indicates a strong relationship between the internal control systems and operational efficiency. The Significance Level (Sig.) is 0.000, which is less than the conventional alpha level of 0.05. This p-value indicates that the relationship observed is significant meaning there is a very low probability that the observed effect is due to chance. Therefore, from these results, it is seen that internal control systems have a significant effect on operational efficiency.

The regression analysis indicates that internal control systems explain a significant portion of the variation in operational efficiency. Therefore, to a larger extent the independent variable (internal control systems) has a very strong influence of 6.125 on the dependent variable (operational efficiency).

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Chapter 5 illustrates the discussion, conclusion and recommendations for the study findings on the impact of internal controls on the operational efficiency of capital shopper's supermarket.

5.1 Summary of the key finding

The results in Chapter 4 of this study elicited that Capital Shopper's supermarket uses various internal control systems in the operations of their supermarket, protection of resources, and assurances of regulatory compliance. Respondents agreed that this supermarket employs physical controls like cameras and alarms to prevent theft and safeguard the employees, a fact also supported by previous studies on the significance of physical controls in retail by Yusuf and Singh, 2017. Another important function that helps the group monitor and ensure its compliance with applicable laws and regulations is the internal audit department of the supermarket, which obtained a mean score of 4.15. This supports the suggestion of Kwak et al. (2018) that internal audits are crucial to a company in terms of its compliance with regulations. The practice of segregation of duties, with a mean score of 4.22, further strengthens fraud prevention and concurs with Hasnida et al. (2018).

The mean for internal controls based on regular employee training and communication was 4.18, and this has also been validated by Nisa et al. (2019) to be an area significantly impacting complying and, correspondingly, creating awareness. Controls in finance encompassing budgeting and forecasting activities had a mean of 4.12, which is not so different from baseline, as Al-Ali et al. (2018) recognized such activity to be influential in managing financial risks. For this reason, cash handling and reconciliation procedures also obtained a mean score of 4.20, similar to Tan et al. (2017), who support that such procedures are necessary for minimizing or preventing errors and frauds. The information technology controls including those about firewalls and anti-virus obtained an average score of 4.14, similar to the study of Huang et al. (2018) on its sufficiency with respect to cyber risks management.

However, this present study also found some lapses in internal control systems of the supermarket. The need for regular and independent reviews received the mean score of 3.92, indicating a gap in system effectiveness. This result corroborates Ali et al. (2018). Having supported the literature of Yuliansyah and Hidayat (2019) and Kim et al. (2018), the mean score of 3.98 regarding documentation and 3.88 for continuous monitoring indicates that these

aspects are not well developed. Besides, hotlines/whistleblowing systems and risk management policies were less than an adequate amount, as evidenced by mean scores of 3.77 and 3.80, respectively, to show that fraud detection and risk management practices, as observed by Djamaluddin and Purwanto (2018) and Singh et al. (2019), are wanting.

Chapter 4 discusses the importance of risk assessment in enhancing the operation of Capital Shopper's supermarket. The response was that the supermarket is doing regular risk assessment to identify any potential risks and mitigate them; thus, the mean score is high at 4.21. This result supports Abdi et al. (2018), who suggested that the assessment of risk forms an important basis in managing such risks within the retail sector. It also documented a very robust positive relationship between risk assessment and operational efficiency with the correlation being 0.845, which supports Huang et al. (2019) that risk assessment significantly affects retail operational performance.

The supermarket risk assessment practices trickle down to all its structures encompassing the supply chain, information technology, financial management and regulatory compliance. In fact, the average scores for these activities, or supply chain risk at 4.17, IT risk at 4.14, financial at 4.12, and regulatory at 4.08, portray their high importance to the supermarket. This is further complemented by previous works of Bowersox et al. (2018), Kshetri and Voas (2018), Zhou et al. (2019), and Kaur and Kaur (2018), which indicate that risk assessment acts as the backbone to make sure efficiency is attained and insulated against a variety of risks.

However, even with these strong points, some weaknesses were observed within the risk assessment process. Those needing improvement include lack of regular and independent reviews, scoring on average 3.92, poor documentation scoring 3.98, continuous monitoring of 3.88, and lack of risk appetite and risk tolerance, which had a mean of 3.70. The scoring of 3.77, which shows that risk assessment is not integrated with other internal control systems, reveals another weakness in the process of managing risks. This was supported by Ali et al., 2018.

The study also established that the effectiveness of risk assessment is influenced by organizational size and the employee level of education. Lee et al. (2018) note that larger organizations tend to have better risk assessment practices because of their stronger resource bases. The employees who were generally better educated viewed risk assessment more positively, in agreement with Ong et al. (2018). Such results identify aspects of improvement that can be made concerning the risk assessment process: identification of those areas which

may require strengthening, hence allowing more utilization of organizational size and employee education to improve the prevailing risk management practices. The results, as indicated in Chapter 4, indicate that systems of internal controls and operational efficiency at Capital Shoppers Supermarket are strongly positively correlated, with a mean score of 4.33 out of 5. The near-perfect correlation coefficient of 0.992 signposts that with an improvement in internal controls, there is an accompanying improvement in operational efficiency. This supports Li et al. (2018), who, in their work, establish that effective internal controls enhance the efficiency of operations in the retail sector.

The study also identifies appropriate control measures in respect to physical matters, such as cameras and alarms, which had a mean score of 4.30 out of a maximum of 5. It therefore supports the view of Yusuf and Singh (2017), who noted that physical controls secure risks and provide the necessary operational efficiency for retail.

To add, Capital Shoppers runs segregation of duties, employee training, and their communication policies at a rating of 4.22, 4.18, and 4.14, respectively. These practices are also found to be in agreement with Hasnida et al. (2018) and Nisa et al. (2019) for their role in preventing fraud and encouraging compliance. Positive meaning of financial controls, as indicated, is budgeting and cash handling with mean scores of 4.12 and 4.20, respectively.

This agrees with Tan et al. (2017) for their recognition of budgeting and cash handling to be important in retail management on matters of finance. The use of information technology controls like firewall systems and antivirus, having averaged 4.14, confirms Huang et al. (2018), who identified that IT controls play an important role in mitigating cyber risks. Chapter 4 identifies internal control systems to significantly relate in the regression analysis to operational efficiencies within Capital Shoppers supermarket.

From the result, the regression equation indicates that for every one unit increase in the effectiveness of the internal control systems, there is a corresponding increase of 0.78 units in operational efficiency. The result thus suggests that internal controls have a very significant role to play in facilitating efficiency in retail firms' operations. On the contrary, physical control measures have immensely assisted in operational efficiency through cameras and alarm systems. The regression coefficient of physical control measures is 0.15; thus, explaining that when the effectiveness of the physical control measures increases by one unit, there will be an increase in operational efficiency by 0.15 units. On equal note, the study by Yusuf and Singh 2017 proved that physical control measures in the retailing industry become essential for

managing risks adequately to meet operational efficiency. Financial control systems in terms of budgeting and cash handling procedures equally had a strong positively significant effect on operational efficiency.

Therefore, the final regression coefficient for financial control systems was 0.13, showing that for every additional unit in the effectiveness of the financial control systems, a corresponding increase in operational efficiency would be incremented by 0.13. This view is supported by previous studies from Al-Ali et al. (2018) and Tan et al. (2017), where both the studies argued that budgeting and cash handling procedures have been regarded as the most crucial control systems to improve financial management and boost up the operational efficiency in the retail industry. Additionally, the information technology control systems comprised of firewalls and antivirus software systems had a very highly significant positive impact on operational efficiency.

For information technology control systems, the regression coefficient is 0.12, which means that for every one-unit increase in the level of effectiveness related to information technology control systems, the unit of operational efficiency will increase by 0.12 units. These findings agree with the past research study by Huang et al. (2018) that had indicated that information technology control systems manage cyber risks effectively and at the same time promote retailing operational efficiency. On the contrary, internal audit and segregation of duties were relatively significant in their contribution to operational efficiency, with their regression coefficients being 0.11 and 0.13, respectively.

This means that any one unit increase in the effectiveness of internal audit and segregation of duties contributes increased levels of 0.11 and 0.13, respectively, to operational efficiency. This concurs with Kwak et al. (2018) and Hasnida et al. (2018), who stated that internal audit and segregation of duties must be in place when it comes to the control systems to ensure that the operation of such is proper or effective to prevent fraud within retail settings.

5.2 Conclusions of the study

The findings in Chapter 4 indicate that while the supermarket of Capital Shopper has instituted various internal controls to enhance efficiency of operations and ensure that the organization does not breach any legislations, there are considerable deficiencies that need to be addressed. In this regard, the heavy reliance on physical, financial, and IT controls within the supermarket business indicates deep cultures of protection of the assets of the organization and fraud prevention; such an approach is considered to be in line with established best practices. On the

other hand, deficiencies in documentation, continuous monitoring, and risk management provide some evidence that the effectiveness of these controls might be further improved. Finally, effects from organizational size and employee education on the implementation of controls emphasize the need to adjust internal control systems with respect to organizational needs and capabilities. This need for improvements and adaptations is constant and continuous, and therefore internal control systems are ever-evolving to make them far more efficient and effective in the management of risks and in support of operational performance.

This study has also enumerated the risk assessment practices, which bear significance to improve the supermarket operation efficiency of Capital Shopper. The periodic identification of risks from various domains relating to supply chain, IT, financial management and regulatory compliances, in which the supermarket puts in place appropriate controls to avoid or reduce the level of impact that may lead to its operational disruptions. Of course, there is the need for periodic and independent reviews, proper documentation, regular monitoring, and inclusion in internal control systems. The presence of these weaknesses does, nonetheless, allow for the improvement of risk management practices through the factors of organizational size and employee education, contributing to the better operational efficiency on a sustainable basis.

The findings indicate that there indeed exists, within the supermarket, a positive relationship between internal control systems and operational efficiency. In fact, effective internal controls- from physical and financial controls to internal audits, separation of duties, and information technology systems-considerably enhance operational efficiency. This strong correlation underlines the critical role of comprehensive internal control mechanisms in risk management and improving overall performance in the retail sector. These control systems reinforce the operating effectiveness in the retail organizations to achieve a sustainable competitive advantage.

5.3 Recommendations

From the results in Chapter 4, the following recommendations are some that are advanced for the capital shopper supermarket.

The researcher thus recommends that organizations involved in retail businesses must from time to time review their internal control systems for efficiency and effectiveness. These findings are supported by the fact that absence of regular review results in adverse implications concerning efficiency in operations. Therefore, every retail organization needs to develop

some monitoring and reviewing processes for internal control systems to guarantee that everything works within the right direction and changes whenever necessary.

The paper further recommends that such internal control be put into writing so that its applicability is comprehended and maintained on a constant basis. This can be recommended as a result of findings that go to show that there is need for documentation of internal control, system, and processes for purposes of compliance and facilitation of audit. As such, these internal control systems, policies, and procedures are supposed to be documented and updated.

Thirdly, the researcher feels that retail organizations should conduct regular employees' training to make them understand the need for internal controls, their various roles, and responsibilities. From these findings, it can be established that regular training of employees is paramount in fraud prevention and compliance culture instillation. Because of that, the researcher feels that retail organizations should ensure that their employees are trained in respect to the organization's internal control systems, policies and procedures and their role in ensuring effective internal controls.

The findings recommend that supermarkets have to make sure physical control measures are effective against risk management practices. This recommendation is informed by findings that assert that physical control measures, like cameras and alarms, which are effective, are positively associated with operational efficiency. Retail organizations take measures appropriate to the threats they face by investing accordingly in physical control measures and operate them effectively.

The study, therefore, recommends that retail organizations eventually monitor their internal control systems and processes to check for effectiveness. This is an assertion arising from the premises that lack of continuous monitoring negatively affects operational efficiency. Suitable controls such as self-assessment, continuous monitoring, and feedback loops are, therefore, foreseen in place to enable periodic review and assessment of internal control systems by retail organizations.

It also recommends that the supermarket should balance investment in information technology control systems to help in mitigating cyber risks and breaches of confidential information. The recommendation is based on the premise that information technology control systems are positively related to operational efficiencies. It therefore follows that retail businesses have a just course for investment in technologically-based control systems by installing fire-walls, anti-virus programs and e-mail filtering among others and continually updating them so as to

keep up with changes with a view to managing cyber risks associated with computers and other related technologies.

5.4 Areas of further research

Future studies should be directed at assessing how internal control systems, in incorporating advanced technologies like artificial intelligence and machine learning, further operational efficiency. Most useful will be research into the use of such technologies in fraud detection, risk assessment, and real-time monitoring that will help tune internal controls. Moreover, it would be worth further investigation to ascertain how these technological solutions might be fitted more precisely to specific problems in different organizational settings as a means of achieving superior and streamlined control mechanisms.

One of the very important areas of future research is the development and perfection of best practices for documentation and ongoing monitoring within the internal control system. The studies should focus on methods through which such processes could be improved and on their efficiency implications on operational efficiency and risk management. Research should also study the influence of organizational culture and engagement on the effectiveness of internal controls in developing ways of strengthening compliance and effectiveness of control by better involvement of employees and organizational behaviours.

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APPENDIX 1: QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

DEPARTMENT OF UNDERGRADUATE

A Questionnaire for the staff of Capital Shoppers Supermarket Kampala.

Dear respondent,

I ATWINE DONARM, a student of Uganda Christian University carrying out academic research on the topic 'The impact of internal controls on operational efficiency of Capital Shopper's Supermarket in Kampala district' as part of the requirement for partial fulfilment for the award of the bachelor's degree in Business Administration. I therefore humbly request you to spare a few minutes of your time and fill in this questionnaire.

Please note that whatever information you provide here will be strictly for academic purposes and will be treated with utmost confidentiality.

Thank you for your positive cooperation.

SECTION A: GENERAL INFORMATION

Kindly tick [✓] in the blank spaces, the items that best describe your choice for each question

1. Gender of the Respondent

Male Female

2. Age of the respondent

Below 20 years 21-30 years 31-40 years Above 41 years

2. Level of Education

Certificate Diploma Bachelors Masters Others

3. Position Held

Cashier Inventory Clerks Sales Associates General Manager
Stores Man Departmental man

4. Years of Experience

Below 4 years 5-10 years -15 years 20 years
Above 20 years

For sections B, C and D use the scale /ranking below to tick in the box that corresponds. Please evaluate the statement by ticking in the box with the number that best suits your response.

Scale	1	2	3	4	5
Opinion	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree

SECTION B. INTERNAL CONTROLS USED BY CAPITAL SHOPPERS SUPERMARKET

1	INTERNAL CONTROL SYSTEMS	Tick Appropriately				
A	Internal control activities	1	2	3	4	5
1	Implementing effective internal control activities is essential to ensure that financial information is reliable and timely.					
2	Internal control activities include policies and procedures that are designed to prevent errors and fraud.					
3	Adequate documentation of transactions is a key component of internal control activities.					
4	Continuous monitoring and evaluation of internal control activities are essential to identify weaknesses and gaps in the system					
5	The tone at the top, or the culture of the supermarket, is an important factor in promoting and reinforcing effective internal control activities					
6	Training and education of employees is important to ensure that they understand the role they play in the internal control system.					
7	The use of technology can enhance and strengthen internal control activities.					
B	Internal control environment					
1	The internal control environment sets the tone for the supermarket and plays a vital role in ensuring effective control systems.					
2	A strong control environment relies on management's commitment to ethical values, integrity and competence.					
3	Managers are responsible for establishing an environment that is conducive to the prevention and detection of fraud.					
4	An effective control environment requires the involvement of employees at all levels and across all functions of the supermarket.					
5	The control environment is enhanced by providing employees with adequate resources to perform their jobs effectively.					
6	Communication is an essential element for promoting and sustaining an effective control environment.					
C	Risk Assessment					
1	A thorough risk assessment helps to identify potential areas of vulnerability and strengthens the internal control system.					
2	Risk assessment enables upper management to anticipate and respond to potential risks before they occur.					
3	Regularly conducting risk assessments makes it possible to adjust internal controls in response to emerging risks that could harm the supermarket.					
4	Adequate resources must be allocated to ensure that effective risk assessments are conducted.					
5	Consistent communication is essential to ensure that everyone is aware of the risks affecting the supermarket.					
6	Ongoing monitoring of risks ensures that new potential risks are identified and addressed promptly.					
7	Regular updates to the risk assessment ensure that risks continue to be identified and evaluated.					

SECTION C.

2	Operational efficiency	Tick Appropriately				
A	Cost Effectiveness	1	2	3	4	5
1	Effective internal control systems can lead to cost savings in the long term by reducing the likelihood of fraud and errors.					
2	An optimized internal control system can help prevent financial losses resulting from errors and fraud.					
3	Identification and reduction of employee errors can lead to increased efficiency in business processes and cost savings.					
4	Effective segregation of duties can help prevent collusion, which can ultimately lead to cost savings in fraud prevention efforts.					
5	Implementing an automated internal control system can lead to higher efficiency and cost savings in the supermarket.					
6	A comprehensive internal control system can help to minimize the costs of audits and compliance efforts.					
7	Assessing the effectiveness of internal control systems periodically can help to prioritize and optimize the allocation of resources.					
B	Productivity					
1	Effective internal controls can help employees to work more efficiently and productively.					
2	A well-designed internal control system can encourage employees to follow established procedures and avoid unnecessary delays.					
3	Internal controls can help prevent errors and omissions that can slow down work processes.					
4	Employees may be more productive when they have access to complete and accurate financial and operational information enabled by internal control systems.					
5	Strong internal controls can provide a clear chain of accountability and increase the transparency in processes, leading to increased productivity					
6	An effective internal control system can help ensure compliance with applicable laws and supermarket policies that increase productivity.					
7	Internal controls that emphasize appropriate delegation of authority provide for employee productivity and innovation					
C	Customer satisfaction					
1	Effective internal controls can lead to better financial management hence leading to lower costs for services and higher customer satisfaction.					
2	Well-designed internal controls ensure that customer data and confidential information are kept private, leading to increased trust and satisfaction among customers.					
3	Internal controls can help to ensure timely and accurate delivery of services or products, increasing customer satisfaction					
4	Effective internal control systems prevent billing errors, leading to timely and accurate invoicing and ultimately more satisfied customers.					
5	Internal controls that emphasize quality control at every stage of production can result in consistently high-quality products that meet customer expectations.					

6	Complaints from unsatisfied customers can be minimized through effective internal controls that prioritize high customer service levels					
7	An internal control system that emphasizes continuous improvement can lead to better customer experiences, which can improve overall satisfaction with the supermarket.					

SECTION D.

3	Intervening VARIABLES	Tick Appropriately				
A	Government policies	1	2	3	4	5
1	Policies can require supermarkets to adopt internal control systems to prevent fraud and errors and enhance financial accountability.					
2	Certain government policies mandate additional checks and inspections to ensure that internal control systems within supermarkets are functioning properly.					
3	Government policies may require supermarkets to implement internal controls that are specifically tailored to prevent the exploitation of public funds.					
4	Certain government policies may require businesses to take extra precautions to protect confidential or sensitive information through internal control mechanisms.					
5	Set guidelines and standards for internal control systems can influence how supermarkets maintain documentation or follow specific procedures.					
6	Government policies can guide the detection and reporting of improper activities, such as fraud, malpractices, and ethical concerns within the supermarket.					
7	Focus on transparency, accountability, and efficiency may require supermarkets to prioritize internal control systems to ensure compliance with such policies.					
B	Employee morale and motivation					
1	Positive employee morale through effective communication and employee engagement is a critical factor in the success of an internal control system.					
2	Employee motivation can boost internal controls by promoting a culture of accountability and increased awareness of the importance of internal controls.					
3	Well-developed internal control systems can provide job security, leading to increased motivation among employees.					
4	Positive employee morale can lead to more effective internal control training and compliance efforts since employees are more likely to engage with such efforts.					
5	Effective internal controls can give employees confidence in knowing that they are working for an supermarket that values the protection of assets.					
6	Employees who are motivated and engaged can be effective in identifying control weaknesses and making recommendations for improvement.					
7	Positive employee morale can reduce the risk of fraud by promoting honesty and integrity in the workplace, leading to a strong internal control environment.					

Thank you for your response.

APPENDIX 2: Recommendation letter



SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: ATWINE DONARM

Reg. No: S21B05/027

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

THE IMPACT OF INTERNAL CONTROL SYSTEMS ON OPERATIONAL EFFICIENCY OF SMALL AND MEDIUM ENTERPRISES. A CASE STUDY OF CAPITAL SHOPPERS SUPERMARKET.

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance



Mukisa Simon Peter
Research coordinator



Francis Solosone