INTERNAL AUDIT CONTROLS AND FINANCIAL PERFORMANCE OF SMES IN KIRINYA, BWEYOGERERE

HILLARY RUBANGANGEYO

M233B33/060

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

May, 2026

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I, Rubangangeyo Hillary, declare that this dissertation is my original work and has not been submitted, either in part or in full, to any university or institution of higher learning for any academic award. Any materials, ideas or quotations from other sources have been duly acknowledged and referenced in accordance with academic standards.

Signature...

Date...10/05/2026....................................

APPROVAL

This is to certify that this dissertation titled "Internal Audit Controls and Financial Performance of SMEs in Kirinya, Bweyogerere" was done and concluded under my supervision and in-line with dissertation requirements of Uganda Christian University. It is now ready for submission with my approval.

Signature……………………………………

Ms. AKINYI LORRAINE OTIENO

Date…10/05/2026……………………

DEDICATION

I wholeheartedly dedicate this work to my lovely family who taught me to stand firm and never give up. Their words of encouragement and belief in me lifted me at every depth I went through. They are a great foundation towards achievement of this milestone.

In a special way, I also dedicate this work to my sponsor and all those who supported my education right from the beginning. Their sacrifices made the progress of this academic journey possible.

Still to my friends and classmates, words can't express the gratitude and heartfelt thanks I have for your tireless support, love and kindness you showed me. In my weakest points you were there as a pillar of strength.

To my supervisor, receive my special appreciation for your guidance and support that shaped the successful completion of this dissertation. Your mentorship and words of hope still echo in my ears.

Finally, my dear friends and all who supported me in all ways – be it financially, emotionally and spiritually. This success is for us all.

ACKNOWLEDGEMENT

My sincere appreciation goes to everyone who contributed towards the successful completion of this research both directly and indirectly. I sincerely appreciate my supervisor, Ms. Akinyi Lorraine, for her timely feedback and comments on my work. I got direction and the confidence I needed for the successful completion of this research.

My family who kept me emotionally strong and determined, I really appreciate you. Also not forgetting my sponsor and all those who made finances available for this study. That can't go unnoticed. I would in a special way also acknowledge the efforts put by my friends and classmates towards my wellbeing and with their prayers for me to have this success!

I'm profoundly grateful to all my friends who shared ideas through discussions, shared resources and moral support. Above all these, God Almighty deserves all the glory for the wisdom, life and strength that He granted to me to complete this study.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

SMEs	Small and Medium Enterprises
IA	Internal Audit
COSO	Committee of Sponsoring Organizations
KCCA	Kampala Capital City Authority
UBOS	Uganda Bureau of Statistics

ABSTRACT

The aim of this study was to determine the effects of internal audit controls on financial performance of small and medium enterprises in Kirinya, Bweyogerere. This study was more concerned with assessing the effect of internal audit control activities, audit control environment and monitoring & evaluation on the financial performance of small and medium enterprises.

A cross sectional research design was employed in the study where data was collected from the respondents at one particular point in time. A total of 170 owners/managers of small and medium enterprises operating in Kirinya Bweyogerere and involved in different industries including retail, hospitality, manufacturing and services were chosen for the study. Stratified random sampling technique was used to sample 158 respondents from among the 170 study subjects. Primary data were collected using structured questionnaires developed along a 5 point Likert Scale. Descriptive statistics like frequencies, percentages and mean were used to analyze data.

The results of the study indicated that internal audit control activities, audit control environment and monitoring and evaluation have a positive effect on the financial performance of small and medium enterprises. From the findings of the study it was evident that audit control activities are important since they help to detect fraud and improve operations. An effective audit control environment promotes ethical behavior and accountability and finally monitoring and evaluation helps to spot any problem early and make informed decisions.

It was concluded In the study that the financial performance of small and medium enterprises can be influenced positively by internal audit controls. The study recommended that the SME owners adopt internal audit processes.

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter involves the background of the research, statement of the problem, and outlining the objectives and research questions that give direction to the research. It also discusses the scope, and significance of the study.

1.1 BACKGROUND OF THE STUDY.

SMEs in Uganda face significant challenges that weaken their financial success. Many struggle with poor financial management and have difficulty securing loans due to inadequate record-keeping or lack of trust from banks (KCCA, 2021). These issues often lead to business failures, with many SMEs closing soon after starting (Turyahebwa et al., 2013). Weak internal controls, such as poor oversight of finances or lack of proper checks, worsen the situation by allowing fraud or mismanagement to go unnoticed. Research shows that SMEs with stronger internal controls perform better financially by managing resources effectively and reducing losses (Kampala retail study, 2023; Nkundabanyanga et al., 2013). Despite this, many SMEs in Kampala do not use these controls due to limited funds, skills, or trained staff (Sejjaaka, 2010).

Internal audit controls, like setting clear rules, checking risks, and monitoring finances, can help SMEs operate more efficiently and improve their profits.

A major contributor to these failures is the weakness and complete absence of internal audit controls. Weak controls such as poor oversight of daily financial transactions, lack of proper checks and balances and insufficient segregation of duties create opportunities for fraud, errors and mismanagement to go unnoticed. Recent studies confirm that SMEs with stronger internal audit controls perform better financially because they are able to manage resources more effectively, reduce losses and make informed decisions (Kampala retail study, 2023; Nkundabanyanga et al., 2013). However, despite this evidence, many SMEs in Kirinya and its surrounding areas still do not implement these controls. The main reasons are limited funds, shortage of skilled staff and lack of proper training on how to design and operate simple but effective control systems (Sejjaaka, 2010).

Internal audit controls such as setting clear financial rules and procedures, regularly checking risks conducting independent reviews, monitoring cash flows, offer a practical solution. These SMEs operate more efficiently, protect their assets, prevent financial leakages and this in turn leads to improved profitability when the internal audit controls are properly applied and also leads to increased survival chances and making them highly competitive in the market.

This study focuses on Kirinya business center to explore how these controls can enhance the financial performance of SMEs, providing practical solutions to help them grow stronger and survive in a competitive market.

1.2 PROBLEM STATEMENT.

For businesses to be able to sustain their performance financially, it is important to consider various factors that can contribute to their success financially so that businesses will have operational stability, ability to service their debts, make strategic decisions, and competitive advantage in the business environment. Key indicators that are used in making decisions include profit, revenues, and cash flows (Hessami, 2021; Merchant & Van der Stede, 2017). Nevertheless, it is noted that most of the SMEs operating in Kirinya have poor performance, and this is because of lack of internal audit control. Despite studies suggesting that there is a relationship between the presence of proper internal controls and financial performance, there has been limited research done on this issue with regard to SMEs within Kirinya (Ogwang, Isabirye & Abaho, 2016).

1.3 PURPOSE OF THE STUDY

The purpose of the study was to examine the effect of internal audit controls on the financial performance of SMEs in Kirinya.

1.4 SPECIFIC OBJECTIVES.

1. To examine the effect of internal audit control activities on the financial performance of SMEs in Kirinya.
2. To assess the effect of audit control environment on the financial performance of SMEs in Kirinya.
3. To assess the effect of monitoring and evaluation on the financial performance of SMEs in Kirinya.

1.5 RESEARCH QUESTIONS

1. What is the effect of internal audit controls on the financial performance of SMEs in Kirinya?
2. What is the effect of internal audit control environment on the financial performance of SMEs in Kirinya?
3. What is the effect of monitoring and evaluation on the financial performance of SMEs in Kirinya?

1.6 SCOPE OF THE STUDY.

1.6.1 Content Scope.

The study focused on the internal audit controls and financial performance of SMEs in Kirinya. This was because small and medium scale businesses are Uganda's foundation for her economy and understanding how internal audit controls affect them these SMEs will help in setting policies that promote their continuity and sustainability.

1.6.2 Time Scope.

The study gathered data from the period of 2010 to 2025. It covers a critical period marked by significant economic and financial changes affecting small and medium enterprises. This period includes the COVID-19 pandemic (2020–2022), which affected SMEs, leading to increased borrowing, financial distress, and the need for internal audit activities, to ensure that the scarce resources were put to the rightful and planned use.

1.6.3 Geographical Scope.

The study focused on Small and Medium Enterprises (SMEs) operating within Kirinya. This is because it has SMEs such as retailers, manufacturers and producers, making it easy to study the role of internal audit controls on the financial performance of SMEs and the challenges like fraud and mismanagement.

1.7 SIGNIFICANCE OF THE STUDY.

The study shows how internal audit controls, like setting clear financial rules and regular monitoring, can improve financial performance by reducing fraud and managing resources better.

It will provide practical ideas to help SME owners strengthen their businesses, increase profits, and avoid failure in Kirinya's competitive market.

The study provides knowledge about how internal audit controls work in Kirinya's SMEs, filling a gap in existing research. It will provide a foundation for future studies to explore ways to improve SME performance in Uganda’s capital.

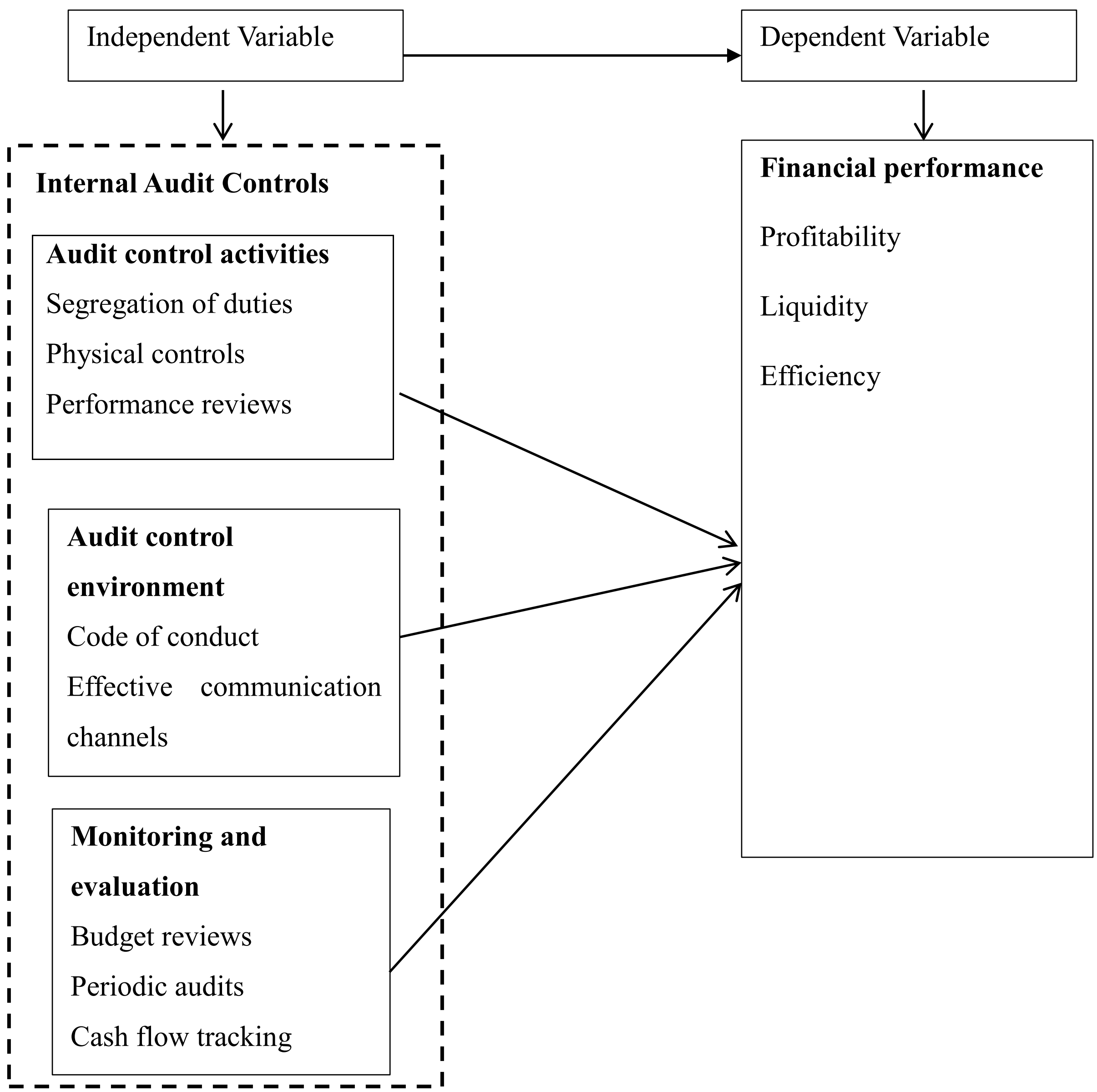
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The chapter provides an overview of the existing literature review concerning the impact of internal control systems on financial performance among small and medium sized firms by various authors. The objectives outlined in the study include the effect of control activities on financial performance among SMEs, the effect of control environment on financial performance of SMEs, and lastly the relationship between risk assessment and its impact on financial performance among SMEs.

2.1 CONCEPTUAL FRAMEWORK



Source: Adopted from COSO, 2013 and modified by the researcher

Figure 1: Conceptual framework showing effect of internal audit controls on financial performance of SME's.

The framework indicates that internal audit controls has an impact on financial performance and illustrates potential connections between these two structures. Numerous studies have made extensive reference to the internal audit controls and its components, including (COSO, 2013; Whittington &Pany, 2016). In particular, risk assessment addressed risk identification, forecasting, and analysis. Control measures including physical asset controls, task segregation, and regular and follow-ups on performance review are also investigated.

2.2 THEORETICAL FRAMEWORK

2.2.1 Internal controls.

Internal controls refer to a systematic approach whereby a review system or check and balance measures and procedures put in place by an organization to help it operate more effectively. The management of the organization can only to some extent be assured that internal controls will achieve its aims. According to Hayes et al. (2013), "all systems of internal control have inherent limitations which impact on achievement." Different organizations create various systems of internal control depending on what each needs to achieve. The systems help organizations perform optimally in what they do, while giving reasonable assurance of the tasks being done. Internal control systems consist of different components and processes created by the management and board of the organization..

2.2.2 Financial performance.

The measures used to measure the performance in this study include growth, capital, employment, debt payment ability, and ROI, according to Berhanu & Jaleta (2012). The performance of an organization can be defined as the financial performance as explained by Namiri & Stojanovic (2018).

2.3 EFFECT OF INTERNAL AUDIT CONTROL ACTIVITIES ON THE FINANCIAL PERFORMANCE OF SMES IN KIRINYA.

Businesses of all sizes require robust internal control mechanisms to achieve sustainable financial performance. Internal audit control activities form a core component of the internal control system, encompassing policies, procedures, and practices such as segregation of duties, authorizations, reconciliations, verifications, and performance reviews designed to mitigate risks, safeguard assets, ensure accurate financial reporting, and promote operational efficiency (COSO Framework). These activities are especially critical for Small and Medium Enterprises (SMEs), which often operate with limited resources and face higher risks of fraud, errors, and mismanagement.

Merchant and Van der Stede (2017), in their seminal work on management control systems, highlight the significance of action controls and results controls in aligning employee behaviours with organisational objectives. They argue that well-designed control systems, including clear guidelines on expected actions and monitoring of financial outcomes such as profitability, revenues, and cash flows, help organisations close performance gaps and enhance overall financial stability. Similarly, Hessami (2021) emphasises that financial stability is essential for businesses to fund operations, service debts, invest in growth opportunities, and remain competitive in dynamic markets. Effective controls contribute significantly to this stability by supporting sound decision-making and risk management.

Empirical evidence supports a positive link between internal control activities and financial performance. In the Ugandan context, Ogwang, Isabirye and Abaho (2016) established a positive and significant relationship between effective internal control systems and improved financial performance among SMEs. Their findings indicate that strong controls reduce financial mismanagement, enhance profitability, and improve liquidity. Subsequent studies in Wakiso District and other areas of Uganda have reinforced this relationship, showing that components such as control activities correlate strongly with better SME profitability, operational efficiency, and asset protection. However, some studies, such as those in Mbale City, report mixed or insignificant associations, suggesting that contextual factors like firm size, industry type, and quality of implementation may moderate the outcomes.

Despite the growing body of literature, there remains limited context-specific research focusing on the effect of internal audit control activities on the financial performance of SMEs in Kirinya (Kira Municipality, Wakiso District). Most existing studies adopt broader national or district-level approaches, leaving a gap in understanding the unique operational realities, resource constraints, and implementation challenges faced by SMEs in this locality.

It is based on the theoretical underpinnings provided by Merchant & Van der Stede (2017), Hessami (2021), and empirical insights by Ogwang et al. (2016). In this regard, the research focuses on evaluating the impact of control activities through internal auditing on performance measures like profit, liquidity, and return on assets within small enterprises in Kirinya.

2.4 EFFECT OF AUDIT CONTROL ENVIRONMENT ON THE FINANCIAL PERFORMANCE OF SMES IN KIRINYA.

A control environment as an underlying pillar of the COSO internal control system comprising of the tone at the top, integrity, ethical values, management philosophy, organizational structure, and human resource policies, plays an important role in influencing the performance of Small and Medium Enterprises (SMEs) by fostering financial reliability, fraud prevention, efficiency, and accountability (COSO, 2013). Within resource-scarce environments like Kirinya, Uganda, where trading occurs within the informal economy and small businesses operate, there is particular need for an effective audit control environment. This is in light of problems associated with the area including poor governance, scarce resources, and informal operations. Guided by the five components of the COSO framework of control environment, risk assessment, control activities, information and communication, and monitoring, in addition to the agency and stewardship theories that stress the need to align interests and reduce agency cost, empirical studies in East Africa and other emerging economies generally depict a positive correlation. For example, according to Musah (2022) in Ghana, there exists a significant positive relationship ($\beta = 0.130$, $p < 0.05$) between the quality of the control environment and SME performance measures such as profitability and return on investment. Similarly, studies from Uganda in areas such as the Buikwe district and the Kenyan city of Kisumu have also shown a strong correlation ($r = 0.893$) between control effectiveness and enhanced profitability, liquidity, and sustainability. On the other hand, some studies like Otai's work in Mbale have found insignificant relationships ($p = 0.678$) due to contextual factors such as manager-owned business entities and knowledge deficits. Generally, in the Kirinya setting and other SME environments in Uganda, an efficient control environment will facilitate transparency, financing, and sustained profitability in spite of implementation challenges. Nonetheless, there are existing gaps in literature in respect to Kirinya-related studies, varying definitions of SME performance measures, and call for primary data, longitudinal analysis, and investigations into moderating factors such as Information Technology adoption. Overall, it remains crucial to focus on fundamentals such as integrity, segregation of duties, and monitoring for better SME performance. Major sources include Musah, A. (2022). Cogent Business & Management; various studies from Uganda on internal control effectiveness within SMEs (Buikwe and Mbale); and COSO (2013) framework documentation.

2.5 THE EFFECT OF MONITORING AND EVALUATION ON THE FINANCIAL PERFORMANCE OF SMES IN KIRINYA.

Monitoring and evaluation is the ongoing process of tracking performance, assessing risks and reviewing the outcomes to ensure organizational goals are met. (COSO, 2013). In Kirinya, where resources are limited, monitoring and evaluation involves simple tools such as budget reviews, periodic audits and cash flow tracking. It also involves checking whether the day-to-day activities and resource use are going according to plan.

Evaluation assesses whether the intended results were actually achieved and the lessons that can be learned. (Ainembabazi, 2022) discusses that for SMEs in places like Kirinya where businesses are owner managed and informal, monitoring and evaluation takes the form of simple but consistent practices like monthly profit reviews, cash reconciliations and discussions with bookkeepers or family helpers.

These activities help in catching mistakes, detecting fraud early, preventing wasteful spending and provide reliable information for better decision making. Ultimately, this leads to improved financial performance in that there's higher profitability, better cash flow management, stronger liquidity and more sustainable growth (Eton et al., 2021). (Nzibonera, 2020) highlights that SMEs with regular monitoring and evaluation practices have fewer financial losses and achieve steadier performance compared to those that rely on occasional checks or no structured review at all.

According to Jensen and Meckling (1976), agency problems arise when owners (principals) give tasks to the employees or managers (agents), which creates risks like information gaps, fraud, that can affect the business financially. Many SMEs in Kirinya where the owners also act as the manager but rely on shop assistants for daily operations still face issues to do with unreported sales, delayed stock checks, misuse of petty cash, and it is through monitoring and evaluation that these agency costs are reduced by ensuring transparency, aligning everyone's interests, and minimizing losses from mismanagement (Musah et al., 2022). Effective monitoring helps close the gap between what owners expect and what actually happens on ground thus leading to better resource use and a stronger profitability (Ainembabazi, 2022).

(Mugisha, 2025) found out in study of SMEs in Mayuge district that regular financial monitoring such as tracking expenses and reviewing cash flows significantly improved profitability by reducing errors and operational waste with many respondents reporting steadier profits after adopting simple weekly reviews. (Eton et al. 2021) also highlighted how monitoring through digital tools like mobile money records supported financial inclusion and modest but significant gains, especially in accessing better loans and managing cash. Even in Kampala, (Nzibonera, 2020) observed that monitored loan usage led to higher returns on capital for small enterprises. These findings show that consistent monitoring and evaluation helps SMEs spot problems early, make informed adjustments and protect profit outcomes that could also benefit Kirinya SMEs that face daily cash and stock pressures.

Despite the positive effects, implementing effective monitoring and evaluation is not always easy for SMEs. Resource limitations, low financial literacy among owners and the informal nature of many operations make it hard to promote regular monitoring, leading to inconsistent practices and reliance on the methods that are exposed to errors (Ainembabazi, 2022). Additionally, when monitoring and evaluation is done without follow up action, there is often no real financial improvement and this sometimes even creates extra administrative burden without benefits (Nzibonera, 2020). These issues are common in the semi-urban areas like Kirinya.

(UBOS reports; Mugisha, 2025) highlight that monitoring and control could play a vital role in addressing issues that usually lead to high closure rates like poor cash management, fraud and unreliable financial information in growing hubs like Kirinya in Kira Municipality. Whereas studies in districts like Mayuge, and Kampala provide valuable insights, they usually focus on broader financial practices with limited attention to specific growing trading centers like Kirinya where SMEs include retailers, and manufacturing under heavy local market pressure. Few local investigations have directly measured how practical monitoring and evaluation activities influence key performance indicators like profitability and liquidity in settings of Kirinya and trading centers under the same category. This creates a clear research gap and hence there is need for evidence on the effect of monitoring and evaluation in Kirinya SMEs so as to offer practical recommendations for the owners, local authorities and support programs. This study aims at filling this vacuum by examining these dynamics empirically in among the SMEs in Kirinya.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION.

In this chapter, methods and instruments of collecting and analyzing data are discussed. According to Kothari (2014), methodology refers to the method employed by researchers in investigating the subject matter. Various methods are evaluated in this chapter which a researcher usually used in the investigation of the research problem. Research design, population, location, determination of sample size, sampling method, data sources,

Level of measurement, instruments of data collection, data collection method, control measures for data quality, and data analysis are considered in the methodology chapter.

3.1 RESEARCH DESIGN.

The study adopted a cross-sectional research design to examine the effect of internal audit controls on the financial performance among SMEs in Kirinya. This design was appropriate in that data collection possible at a single point in time from multiple SMEs, which enabled efficient analysis of associations without the need for longitudinal tracking, which is resource-intensive for a student-led study. The research focused on the quantitative approach where data was gathered through questionnaires in order to measure variables objectively for example the likert scale responses on control dimensions and self-reported financial metrics, which allowed statistical analysis such as correlation and regression. The design was guided by the agency theory, which explained the need for controls to align owner-manager interests and the COSO internal framework, structuring the measurement of controls. It was non-experimental as no interventions or manipulations was applied, focusing instead on naturally occurring variations in controls and performance. This design ensured that the study was rigorous, ethical and aligned with the research objectives, while remaining practical for a small population in Kirinya.

3.2 AREA OF THIS STUDY.

The study was carried out in Kirinya, Kira Municipality, Wakiso district, Central Uganda. Kirinya is a peri-urban commercial hub located approximately 12 km east of Kampala city, adjacent to Mandela National Stadium and near the Jinja Highway. It is characterized by a mix of retail shops, small scale manufacturing, salons, eateries, transport and light industrial activities with a high concentration of SMEs serving both its local residents and Kampala spillover markets. The area was selected because of the researcher's familiarity, the vibrancy of SME activities, approachability and practical relevance of internal audit controls in a setting where most SMEs are owner managed with a few sectors that are formal. The findings of the research were specific to Kirinya.

3.3 STUDY POPULATION

The study population consisted of owners and managers of small scale businesses operationg in Kirinya. According to the records from Kira Municipal Council offices (2024), there are approximately 300 registered small scale businesses within the parish. These include businesses in retail trade, hospitality, manufacturing and services.

3.4 SAMPLE SIZE

Due to the limitations in resources and time, a representative sample was selected.

The sample size in this study was determined using Yamane's formula as shown below;

$N = N/[1+N(e)^2]$

Where;

n = required sample size

N = target population size = 300

e = margin of error = 0.05 (5%, standard for 95% confidence level)

n = 170 respondents

3.5 SAMPLING TECHNIQUE

This research study used stratified random sampling technique to ensure representation from different categories of small and medium scale businesses. After stratification, simple random sampling was used to select respondents from each of the categories and this ensured that selection bias was reduced and enhanced the representatives and reliability of the results.

3.6 DATA SOURCES.

The study utilized both primary and secondary data sources. The primary data was collected directly from SME owners and managers through the questionnaires which provided original information on internal audit controls and perceived financial performance. The secondary data was acquired through published financial reports from respondent SMEs where available, Kira municipal Council and URA business registers and UBOS statistical abstracts, previous SME surveys and academic journals on internal controls or COSO framework.

3.7 DATA COLLECTION METHODS.

The study employed primary data gathering techniques to attain data. Structured questionnaires were used to collect the data in order to save time during the data gathering process and due to the fact that a few members of the community could be illiterate and hence favored also them. The questionnaires were distributed in person at the business premises in Kirinya and collection was done after 2-3 days, which the researcher believed was ample for the required exercise to be completed.

3.7.1 QUESTIONNAIRE.

The questionnaire was structured, close ended and divided into several sections, four to be exact. It used the 5-point scale; 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree. Section A: Demographic and Business Profile, Section B: Internal Audit control activities on financial performance, Section C: Internal audit control enviroment on financial performance, Section D: Monitoring and evaluation on financial performance.

3.8 ETHICAL CONSIDERATIONS.

The researcher ensured that the rights of the respondents are not violated. This was done with the following in mind;

1. There was no provision for respondents' actual names on questionnaires
2. Respondents' consent to being included in the study was sought.
3. Communicating of the rationale for the study to the respondents prior to data collection was done.
4. The study did not discriminate against participants based on gender, ethnicity, or any other personal characteristics.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, INTERPRETATION & DISCUSSION

4.0 INTRODUCTION.

This chapter presents the analysis and interpretations of findings that are obtained from the study. It presents the response rate, background characteristics of respondents, key variables, describes key variables, descriptive statistics and reliability results. The findings of the study are discussed in the order of objectives, while relating them to research questions and the relevant literature.

4.1 RESPONSE RATE.

From the sample population of 170, questionnaires were distributed correspondingly to SME owners and managers in Kirinya. However, only 158 were returned which yielded a response rate of 92.9%.

Table 4.1 Response Rate.

Category	Questionnaires issued	Questionnaires returned	Response rate (%)
Retail	55	51	92.7
Hospitality	36	33	91.7
Manufacturing	30	27	90
Service provider	29	27	93.1
Others	20	20	100
Overall	170	158	92.9

Source: Primary Data

The planned sample size was 170 respondents of which 158 questionnaires were completed and returned resulting into a 92.9% response rate. This response rate is satisfactory for drawing reliable conclusions.

Analysis shows that 100% response rate was recorded where all the 20 issued questionnaires for Others were completed and returned. Service providers also recorded 93.1% as the 27 out of 29 questionnaires were successfully completed and returned. Retail businesses recorded 92.7% participation where 51 out of 55 questionnaires were successfully completed and returned. This maximum participation by key business categories ensures strategic perspectives are represented fully.

Despite a slight decrease in the number compared to others, hospitality businesses also demonstrated a high response rate of 91.7% where 33 out of 36 questionnaires were completed and returned which indicates substantial engagement from owners responsible for core operations.

Manufacturing businesses reported a response rate of 90.0% where 27 out of 30 questionnaires were completed and returned. This high participation among manufacturing SMEs is attributed to their direct involvement in operational and control processes.

The high response rate from various business categories reduces the risk of bias and ensures that the findings of the study are based on a sufficiently representative sample of the targeted population.

4.2 BACKGROUND OF RESPONDENTS.

The background characteristics of respondents presented in this section include their gender, age group, highest level of education attained, number of years in operation and type of business. The distribution is shown in table 4.2 below.

Table 4.2: Background Information on the Respondents (N=158)

Item	**Details**	**Frequency**	**Percentage (%)**
Gender of respondents	Male	107	67.7
	Female	51	32.3
	Total	158	100
Age group of respondents	21-30 years	38	24.1
	31-40 years	62	39.2
	41-50 years	43	27.2
	Above 50 years	15	9.5
	Total	158	100

Highest education level attained	Primary	11	7.0
	Secondary	32	20.3
	Certificate	23	14.6
	Diploma	41	25.9
	Bachelor's	33	20.9
	Masters	8	5.1
	Others	10	6.3
	Total	158	100
Number of years in operation	1-5 years	50	31.6
	6-10 years	61	38.6
	11-15 years	28	17.7
	Over 15 years	19	12.0
	Total	158	100
Type of business	Retail	51	32.3
	Hospitality	33	20.9
	Manufacturing	27	17.1
	Service provider	27	17.1
	Others	20	12.7
	Total	158	100

Source: Primary Data

According to the findings in table 4.2, 158 respondents participated in the study. Males formed the majority respondent percentage of 67.7% (107) and females 32.3% (51). This indicated an imbalance in gender participation which could be a reflection of the existing ownership composition or participation levels within the SMEs in Kirinya.

In regard to age distribution, majority of respondents were within 31-40 years of age bracket making 39.2% (62) of the total sample followed by age group from 41-50 years who accounted for 27.2% (43). The age group of 21-30 years constituted 24.1% (38). Those above 50 years represented the smallest percentage of 9.5% (15) of the total sample. The results indicate the

SMEs are made up of young and middle-aged adults in their economically productive period thus they will be actively involved in the SMEs' activities.

The study revealed that 72.8% (115) of the respondents have received a diploma, bachelor's and masters as the highest level of education which indicated that the respondents have sufficient academic qualifications that enhances the credibility and reliability of the information provided in the study.

The majority of respondents 38.6% (61) have operated their businesses for 6-10 years, followed by those who have operated for 1-5 years who accounted for 31.6% (50). Those who have operated for 11-15 years constituted 17.7% (28) and 12.0% (19) have operated for over 15 years. This indicates that most respondents have business experience thus familiar with the SMEs operations and able to provide informed responses.

The distribution by type of business indicate that the largest group of respondents were retail businesses who composed of 32.3% (51) of the total sample followed by hospitality 20.9% (33), manufacturing 17.1% (27). Service providers and others each constituted 17.1% (27) and 12.7% (20) of the respondents. This indicates that the study captured perspectives from various levels thus reflecting a combination of operational and managerial ideas thereby enhancing the comprehensiveness of the findings.

4.3 EFFECTS OF INTERNAL AUDIT CONTROL ACTIVITIES ON FINANCIAL PERFORMANCE OF SMES IN KIRINYA.

Examining the effects of internal audit control activities on financial performance of SMEs in Kirinya was the first objective of the study, where internal audit control activities were measured using seven different items on a five-point Likert scale that ranged from 1= Strongly Disagree to 5= Strongly Agree. All the findings are represented in table 4.3 below.

Table 4.3: Descriptive Statistics for Internal Audit Control Activities.

Internal audit control activities Items	**SA (5) (%)**	**A (4) (%)**	**N (3) (%)**	**D (2) (%)**	**SD (1) (%)**	**Mean**	**SDV**
1.Compliance with audit control activities promotes proper record keeping and financial accountability in small businesses.	53 (33.5)	67 (42.4)	23 (14.6)	8 (5.1)	7 (4.4)	3.96	0.89
2. Audit control activities help in enhancing operational efficiency by identifying wasteful spending hence improving profitability.	69 (43.7)	60 (38.0)	17 (10.8)	11 (7.0)	1 (0.6)	4.17	0.82
3. Audit control activities prevent fraud and misuse of resources through activities such as segregation of duties and regular audits.	75 (47.5)	54 (34.2)	19 (12.0)	9 (5.7)	1 (0.6)	4.22	0.79
4. Audit control activities help safeguard business assets through proper controls like inventory checks and authorization procedures.	61 (38.6)	60 (38.0)	25 (15.8)	10 (6.3)	2 (1.3)	4.06	0.85
5. Regular audit checks help in monitoring cash inflows and outflows which allows the business control unnecessary spending.	71 (44.9)	59 (37.3)	16 (10.1)	8 (5.1)	4 (2.5)	4.17	0.84
6. Audit reports provide management with important information about financial strengths and weaknesses.	62 (39.2)	60 (38.0)	26 (16.5)	10 (6.3)	0 (0.0)	4.10	0.87
7. Employees perform their duties responsibly when they know that audit control procedures exist.	71 (44.9)	55 (34.8)	21 (13.3)	6 (3.8)	5 (3.2)	4.17	0.48
Composite mean score for Internal Audit Control Activities						4.12	0.48

Source: Primary Data

From Table 4.3, the study found that 75.9% of the respondents agreed that compliance with audit control activities promotes proper record keeping and financial accountability in SMEs, while only 9.5% disagreed and 14.6% were unsure of the statement. This implies that following control activities significantly enhances transparency and accountability in the financial records of SMEs.

Furthermore, 81,7% of the respondents agreed that audit control activities help in enhancing operational efficiency by identifying wasteful spending hence improving profitability, while 7.6% disagreed and 10.8% were neutral on this statement. This suggests that effective control activities enable SMEs to detect inefficiencies, reduce unnecessary costs and ultimately boost their profitability.

The findings also revealed that 81.7% of the respondents agreed that audit control activities prevent fraud and misuse of resources through activities such as segregation of duties and regular audits, while only 6.3% disagreed and 12.0% were unsure about the statement. This was the highest rated item with a mean score of 4.22. This implies that internal audit control activities play a crucial role in safeguarding business resources against fraud and mismanagement which later leads to improved financial performance of the business.

Additionally, 76.6% of the respondents agreed that audit control activities help safeguard business assets through proper controls like inventory checks and authorization procedures, while 7.6% disagreed and 15.8% were neutral on this statement. This indicates that physical and procedural controls are viewed as important mechanisms for protecting business assets.

The study also established that 82.2% of the respondents agreed that regular audit checks help in monitoring cash inflows and outflows which allows the business to control unnecessary spending, while only 7.6% disagreed and 10.1% were neutral. This highlights the importance of continuous cash flow monitoring as a key control activity for maintaining liquidity.

Moreover, 77.2% of the respondents agreed that audit reports provide management with important information about financial strengths and weaknesses, while only 6.3% disagreed and 16.5% were neutral about the statement. This shows that audit reports are perceived as valuable tools for management in understanding the financial position of the business and making informed strategic decisions.

Finally, 79.7% 0f the respondents agreed that employees perform their duties responsibly when they know that audit control procedures exist, while 7.0% disagreed and 13.3% were neutral. Ths therefore suggests that the existence of audit control procedures encourages responsible behavior and accountability among employees which promotes improved financial performance.

The composite mean score for internal audit control activities was 4.12 with a standard deviation of 0.48. This high mean score indicates that respondents strongly agreed that internal audit control activities have a positive and significant effect on financial performance of SMEs in Kirinya. The relatively low SD shows a high level of consistency and consensus in the respondent's perceptions.

The above findings show that internal audit control activities especially fraud prevention, cash flow monitoring, operational efficiency and asset safeguarding are perceived as effective tools for reducing losses, improving accountability and enhancing overall financial performance of SMEs in Kirinya.

4.4 EFFECTS OF AUDIT CONTROL ENVIRONMENT ON FINANCIAL PERFORMANCE.

Assessing the effect of audit control environment on financial performance of SMEs in Kirinya was the second objective while considering SMEs in Kirinya. Seven items on audit control environment were measured on a five-point Likert scale. Findings are presented in table 4.4 below.

Table 4.4: Descriptive Results for Audit Control Environment

Audit Control Environment Items	**SA (5) (%)**	**A (4) (%)**	**N (3) (%)**	**D (2) (%)**	**SD (1) (%)**	**Mean**	**SDV**
1. Strong audit control environment promotes ethical behavior among employees and management.	57 (36.1)	66 (41.8)	20 (12.7)	13 (8.2)	2 (1.3)	4.03	0.91
2. Control environment establishes clear leadership within the organization which reduces financial mismanagement.	73 (46.2)	59 (37.3)	18 (11.4)	7 (4.4)	1 (1.06)	4.24	0.78
3. A well-structured control environment ensures that staff members are accountable for their duties and this enhances financial performance.	57 (36.1)	64 (40.5)	21 (13.3)	9 (5.7)	7 (4.4)	3.98	0.93
4. Audit control environment ensures that proper policies and procedures are followed and this helps improve reliability of financial reporting.	63 (39.9)	71 (44.9)	15 (9.5)	8 (5.1)	1 (0.6)	4.18	0.81
5. Audit Control environment ensures that the business follows financial regulations and taxation policies.	66 (41.8)	59 (37.3)	18 (11.4)	8 (5.1)	7 (4.4)	4.07	0.86
6. Strong policies, supervision and ethical leadership, helps identify and manage financial risks before affecting financial performance.	64 (40.5)	61 (38.6)	18 (11.4)	8 (5.1)	7 (4.4)	4.06	0.88
7. Audit control environment encourages efficient resource utilization because they are used responsibly.	67 (42.4)	64 (40.5)	16 (10.1)	8 (5.1)	3 (1.9)	4.16	0.84
Composite Mean Score for Audit Control Environment						4.10	0.51

Source: Primary Data

As seen in table 4.4 above, the study found that 83.5% of the respondents agreed with 46.2% strongly agreeing and 37.3% agreeing that control environment establishes clear leadership within the organization which reduces financial mismanagement. This was the highest rated item with a mean score of 4.24. This implies that strong leadership and clear direction in the control environment play a vital role in minimizing financial mismanagement among SMEs in Kirinya.

Furthermore, 84.8% of the respondents agreed that audit control environment ensures that proper policies and procedures are followed which helps improve reliability of financial reporting with 39.9% strongly agreeing and 44.9% agreeing. This suggests that a well-defined control environment promotes discipline and enhances the quality and trustworthiness of financial information and better decision making which improves the financial performance of the business.

The findings also revealed that 82.9% of the respondents agreed that the audit control environment encourages efficient resource utilization because resources are used responsibly with 42.4% strongly agreeing and 40.5% agreeing. This indicates that a strong control environment helps SMEs reduce wastage and improve overall operational efficiency.

Additionally, 77.9% of the respondents agreed that a strong audit control environment promotes ethical behavior among employees and management with 36,1% strongly agreeing and 41.8% agreeing. This implies that the control environment sets the right tone for integrity and ethical conduct which is essential for sustainable financial performance.

The study further established that 76.6% of the respondents agreed that a well-structured control environment ensures that staff members are accountable for their duties hence they work in accordance to their designated roles in the business and this enhances financial performance while 13.3% were neutral on this statement and only 10.1% disagreed.

The composite mean score for the audit control environment variable was 4.10 with a standard deviation of 0.51. This high mean score indicates that respondents strongly agreed that a good audit control environment has a significant positive effect on financial performance of SMEs in Kirinya, with the relatively low standard deviation reflecting consistency in respondent's perception across the items.

These findings also demonstrate that a strong audit control environment through clear leadership, ethical values, accountability and adherence to policies creates a foundation for improved financial discipline, reduced mismanagement and better overall financial performance of SMEs.

4.5 EFFECTS OF MONITORING AND EVALUATION ON FINANCIAL PERFORMANCE OF SMES IN KIRINYA.

This was the third objective of the study while taking SMEs in Kirinya. Monitoring and evaluation was measured on seven items with a five-point Likert scale ranging from 1= Strongly Disagree to 5= Strongly Agree. Findings are represented in table 4.5 below.

Table 4.5: Descriptive Results for Monitoring and Evaluation

Monitoring and Evaluation Items	**SA (5) (%)**	**A (4) (%)**	**N (3) (%)**	**D (2) (%)**	**SD (1) (%)**	**Mean**	**SDV**
1. Monitoring and evaluation assesses activities and financial results of the business.	66 (41.8)	64 (40.5)	15 (9.5)	7 (4.4)	6 (3.8)	4.12	0.85
2. Monitoring and evaluation improves decision making by providing reliable data and feedback about business operations.	55 (34.8)	67 9(42.4)	23 (14.6)	7 (4.4)	6 (3.8)	4.00	0.90
3. Monitoring and evaluation can detect inefficiencies, errors, or poor performance and improves financial performance.	78 (49.4)	54 (34.2)	15 (9.5)	9 (5.7)	2 (1.3)	4.25	0.80
4. Monitoring and evaluation ensures financial and physical resources are used effectively and not wasted leading to improved profitability.	55 (34.8)	69 (43.7)	26 (16.5)	7 (4.4)	1 (0.6)	4.08	0.87
5. Monitoring and evaluation compares actual financial performance with planned budget which helps ensure financial discipline.	59 (37.3)	65 (41.1)	19 (12.0)	11 (7.0)	4 (2.5)	4.04	0.89
6. Financial and operational problems are identified early with monitoring and evaluation and helps avoid losses with early correction.	62 (39.2)	66 (41.8)	20 (12.7)	8 (5.1)	2 (1.3)	4.13	0.86
7. Evaluation provides information about what strategies work and the businesses	61 (38.6)	65 (41.1)	15 (9.5)	14 (8.9)	3 (1.9)	4.06	0.88

adjusts their strategies to improve financial performance.							
Composite Mean Score for Monitoring and Evaluation						4.10	0.49

Source: Primary Data

As seen in table 4.5 above, respondents agreed that monitoring and evaluation can detect inefficiencies, errors and poor performance with 49.4% agreeing and 34.2% agreeing and this was the highest rated item with a mean score of 4.25. This implies that regular monitoring and evaluation enable SME owners to identify problems and take corrective actions thereby enhancing overall financial performance.

Furthermore, respondents agreed that monitoring and evaluation assesses activities and financial results of the business with 41.8% strongly agreeing and 40.5% agreeing. This suggests that systematic assessment helps business owners determine whether they are meeting their financial goals and objectives.

Similarly, respondents agreed that financial and operational problems are identified early with monitoring with 39.2% strongly agreeing and 41.8% agreeing. This highlights the preventive value of consistent monitoring in minimizing financial losses.

In addition, respondents also agreed that monitoring and evaluation ensures financial and physical resources are used effectively and not wasted with 34.8% strongly agreeing and 43.7% agreeing. This indicates that effective monitoring promotes better resource utilization and controlled cost which enhances financial performance.

The study established that 78.4% of the respondents agreed that monitoring and evaluation compares actual financial performance with the planned budget and this helps ensure financial discipline with 37.3% strongly agreeing, 41.1% agreeing only 9.5% disagreeing.

Respondents also agreed that monitoring and evaluation improves decision making by providing reliable data and feedback about business operations which enhances financial performance with 77.2% agreeing and only 8.2% disagreeing, though 14.6% of them were neutral about the statement.

Finally, respondents agreed with the statement that evaluation provides information about what strategies work, allowing businesses to adjust their strategies in order to enhance their financial performance with 38.6% strongly agreeing and 41.1% agreeing though 9.5% of them remained neutral.

The composite mean score for monitoring and evaluation was 4.1 with a standard deviation of 0.49. The high mean shows that respondents strongly perceived monitoring and evaluation practices as having a positive and significant effect on the financial performance of SMEs in Kirinya. The low standard deviation indicates a high level of agreement among the respondents.

These findings confirm the regular monitoring and evaluation practices help SMEs detect problems early, promote accountability, ensure efficient use of resources and support better decision making, so as to improve financial performance and sustainability.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter will give a brief overview of the results of the study including conclusions and recommendations made from the research. The discussion will be based on the objectives of the research using relevant literature as a basis.

5.1 SUMMARY OF FINDINGS

5.1.1 Internal Audit Control Activities and Financial Performance

It was noted that the internal audit control activities positively affect the financial performance of SMEs in Kirinya. The respondents had an overwhelming opinion that activities like segregation of duties, regular auditing, and performance reviews contribute greatly to increased efficiency and accountability within firms.

From the findings, it is evident that proper segregation of duties ensures that there is no fraud or errors. On the other hand, physical controls like inventory management and authorization ensure that firm assets are protected from any possible loss. Furthermore, financial reviews allow business owners to review the performance of the business and find any inefficiencies.

The findings in this study are in agreement with the work done by Halil et al. (2018) and Karami et al. (2020), in which the authors assert that control activities help in improving accountability and minimizing financial loss. In the same light, according to COSO (2013; 2017), control activities are very important in facilitating financial reporting and efficient operations. There are similar views expressed by Ogwang et al. (2016) and Nkundabanyanga et al. (2013).

In spite of all these benefits associated with control activities, some SMEs struggle to implement them because of inadequate finances and technical know-how, a challenge reported by Sejjaaka (2010).

5.1.2 Audit Control Environment and Financial Performance

The study also indicated that the control environment for audits greatly affects the financial performance of SMEs. Businesses that have formal structures, good leadership and proper communications systems have a high chance of performing well financially.

It was discovered from the results of the study that a well-entrenched code of ethics helps in cultivating the practice of good behaviors and discipline among employees. Effective leadership, on the other hand, helps businesses comply with internal controls and improve their performance.

According to the studies, the findings of the research are congruent with the assertion made by Mwakimasinde et al. (2015) that the control environment is at the heart of a proper internal control system. Similarly, Whittington & Pany (2016) note that a good control environment reduces any form of financial anomalies and improves organizational performance. Also, according to the research carried out by Nguyen et al. (2017) and Weatherspoon & LeClair (2012), good leadership and ethics help organizations perform better.

Moreover, it should be noted that COSO (2013) highlights the role played by the control environment in determining the tone of an organization. Unfortunately, some SMEs lack proper structures in place thus affecting their performance adversely, according to the study by Abuya (2017).

5.1.3 Monitoring and Evaluation and Financial Performance

Also, there is evidence that monitoring and evaluation greatly assist in improving financial performance. Small medium enterprises that monitor and evaluate their financial performance have an upper hand over others that use informal systems.

Some activities like evaluating budgets, managing cash flows, and undertaking evaluation make it easier for entrepreneurs to spot problems and take corrective measures. Monitoring ensures that resources are utilized effectively, while evaluation gives insight into the effectiveness of strategies employed in the business.

According to Nzibonera (2020), frequent monitoring helps SMEs maintain financial stability. The importance of monitoring in enhancing the efficient utilization of resources is explained by Eton et al. (2021). On the other hand, Ainembabazi (2022) emphasizes that evaluating decisions leads to improved decision making. Musah et al. (2022) further confirm the importance of monitoring to financial performance of SMEs.

However, the study established that some SMEs fail to undertake consistent monitoring due to financial illiteracy and use of informal systems in management.

5.2 CONCLUSIONS

From the results of the study, it can be observed that some major conclusions can be made.

First, the implementation of proper controls within an internal audit control framework enhances business performance through the reduction of fraud cases, efficiency, and improved performance of SMEs, according to COSO (2017) and Ogwang et al. (2016).

Secondly, an effective audit control environment is a very important aspect when it comes to improving the business performance of the firm, where proper business performance can be achieved from good management, policies, and practices, as mentioned by Mwakimasinde et al. (2015) and Whittington & Pany (2016).

Thirdly, it is imperative that monitoring and evaluation be carried out by an SME because through such actions it will be possible to measure the firm's performance, as noted by Nzibonera (2020) and Ainembabazi (2022).

In conclusion, internal audit controls are very essential in the operations of businesses within Kirinya.

5.3 RECOMMENDATIONS

The SME owner must improve internal audit controls by ensuring proper segregation of duties, undertaking periodic review of finances, and securing business property. All these measures can be justified from the recommendation provided by COSO (2013) and Halil et al. (2018).

The owners must also develop an effective control environment by setting up policies, practicing ethics, and fostering communication in their businesses. It is vital for leadership commitment as stated by Weatherspoon and LeClair (2012).

It is imperative for SMEs to implement effective monitoring and evaluation through measures like reviewing cash flows, budget, and performance. This can be explained from the research conducted by Nzibonera (2020) and Eton et al. (2021).

The government and other bodies must develop capacity building programs in terms of financial and internal audit skills for SME owners. This idea has been highlighted in the study conducted by UBOS (2023).

5.4 AREAS FOR FURTHER RESEARCH

In future research, the use of digital financial tools like mobile money and accounting software should be studied regarding their influence on strengthening internal audit controls, as emphasized by Eton et al. (2021).

It would be beneficial to analyze how financial literacy influences the functioning of internal control systems, as recommended by Ainembabazi (2022).

Additionally, a comparative analysis of urban and rural SMEs would help gain greater insight into internal audits, as argued by Nzibonera (2020).

Lastly, researchers may focus on studying the long-term effects of internal audit controls on business operations and the difficulties that SMEs encounter when trying to implement internal audit controls, especially due to limited resources, as mentioned by Sejjaaka (2010).

REFERENCES

Abuya, J. (2017). Internal control environment and organizational performance.

Ainembabazi, T. (2022). Monitoring and evaluation practices and SME performance in Uganda.

Albrecht, W. S., Albrecht, C. C., Albrecht, C. O., & Zimbelman, M. F. (2018). Fraud examination (5th ed.). Cengage Learning.

American Institute of Certified Public Accountants (AICPA). (2017). Internal control systems and risk assessment guidance.

Berhanu, K., & Jaleta, M. (2012). Determinants of business performance among small enterprises.

Certo, S. C., & Certo, S. T. (2018). Modern management: Concepts and skills (14th ed.). Pearson.

Chartered Accountants Australia and New Zealand. (2021). Internal control and risk management for small and medium enterprises.

Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2013). Internal control—Integrated framework.

Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2017). Enterprise risk management: Integrating with strategy and performance.

Cosserat, G., & Rodda, N. (2015). Modern auditing (4th ed.). Wiley.

Eton, M., et al. (2021). Digital financial practices and SME performance in Uganda.

Ewuuk, A. (2020). Internal control systems and sustainability of SMEs.

Halil, K., Musa, A., & Ahmed, R. (2018). Internal audit practices and financial performance.

Hayes, R., Wallage, P., & Gortemaker, H. (2013). Principles of auditing: An introduction to international standards on auditing (3rd ed.). Pearson.

Hessami, Z. (2021). Financial stability and firm performance.

Inusah, A., & Abdulai, A. (2015). Internal control systems and financial outcomes.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.

Karami, M., Rahimi, G., & Vafaei, A. (2020). Audit effectiveness and SME performance.

Kampala Capital City Authority (KCCA). (2021). SME performance report.

Kothari, C. R. (2014). Research methodology: Methods and techniques (3rd ed.). New Age International.

Merchant, K. A., & Van der Stede, W. A. (2017). Management control systems: Performance measurement, evaluation and incentives (4th ed.). Pearson.

Musah, A., Gakpetor, E. D., & Pomaa, E. (2022). Agency problems and SME financial management.

Mwakimasinde, M., Odhiambo, R., & Byaruhanga, J. (2015). Internal control environment and organizational performance.

Nguyen, T. T., Mia, L., Winata, L., & Chong, V. K. (2017). Control systems and firm performance.

Nkundabanyanga, S. K., Ntayi, J. M., Ahiauzu, A., & Sejjaaka, S. (2013). Internal controls and firm performance in Uganda.

Nzibonera, E. (2020). Monitoring practices and SME financial stability in Kampala.

Ogwang, J. A., Isabirye, M., & Abaho, E. (2016). Internal control systems and financial performance of SMEs in Uganda.

Petrovits, C., Shakespeare, C., & Shih, A. (2011). The causes and consequences of internal control problems.

Rafindadi, A. A., & Olanrewaju, O. (2019). Internal controls and risk management.

Sejjaaka, S. (2010). Challenges faced by SMEs in Uganda.

Turyahebwa, A., Sunday, A., & Ssekajugo, D. (2013). Financial management practices and SME performance in Uganda.

Tuan, L. T. (2021). Preventive and detective control systems.

Uganda Bureau of Statistics (UBOS). (2023). Statistical abstract.

Weatherspoon, K., & LeClair, D. (2012). Leadership and ethical control environment.

Whittington, O. R., & Pany, K. (2016). Principles of auditing and other assurance services (20th ed.). McGraw-Hill Education.

APPENDICES

Appendix 1: Questionnaire

Introduction and Purpose of the Study

I am Rubangangeyo Hillary, a student of Uganda Christian University pursuing a Bachelor's Degree in Accounting and Finance. I am carrying out a research study titled "**Internal Audit Controls on Financial Performance of SMEs in Kirinya.**"

The purpose of this questionnaire is to collect data to fulfill the requirements for the award of the above degree. I kindly request you to answer the following questions honestly. The information provided will be treated with the highest level of confidentiality and used strictly for academic purposes.

SECTION A: Demographic information

(Please tick the appropriate box)

1. **Gender of the respondent**
   a. Male ☐
   b. Female ☐

2. **Age group of the respondent**
   a. 21-30 years ☐
   b. 31-40 years ☐
   c. 41-50 years ☐
   d. Above 50 years ☐

3. **Level of education**
   a. Primary ☐
   b. Secondary ☐
   c. Certificate ☐
   d. Diploma ☐

e. Bachelor’s ☐
f. Masters ☐
g. Others ☐

4. **Type of business**
   a. Retail ☐
   b. Hospitality ☐
   c. Manufacturing ☐
   d. Service provider ☐
   e. Others ☐

5. **Number of years in operation**
   a. 1-5 years ☐
   b. 6-10 years ☐
   c. 11-15 years ☐
   d. Over 15 years ☐

SECTION B: Internal Audit Controls on Financial Performance

(Tick the response that best represents your opinion using the scale below)

Scale: 1 = Strongly disagree 2 = Disagree 3 = Not sure 4 = Agree 5 = Strongly Agree

A. The effect of internal audit control activities on financial performance

Statement	**1**	**2**	**3**	**4**	**5**
Compliance with audit control activities promotes proper record keeping and financial accountability in small businesses.					
Audit control activities help in enhancing operational efficiency by identifying wasteful spending hence improving profitability.					
Audit control activities prevent fraud and misuse of resources through activities such as segregation of duties and regular audits.					
Audit control activities help safeguard business assets from through proper controls like inventory checks and authorization procedures.					
Regular audit checks help in monitoring cash inflows and outflows which allows the business control unnecessary spending and maintain sufficient liquidity operations.					
Audit reports provide management with important information about financial strengths and weaknesses, enabling them to make informed strategic decisions.					
Employees perform their duties responsibly when they know that audit control procedures exist.					

B. The effect of audit control environment on financial performance

Statement	1	2	3	4	5
A strong audit control environment promotes ethical behavior by encouraging honesty, integrity, and ethical conduct among employees and management.					
The control environment establishes clear leadership and supervision within the organization and this reduces financial mismanagement and improves efficiency.					
A well-structured control environment defines roles and responsibilities for employees and this ensures that staff members are accountable for their duties and this enhances operational efficiency and financial performance.					
Audit control environment ensures that proper policies and procedures are followed when preparing statements and this helps improving reliability of financial reporting.					
Audit Control environment ensures that the business follows financial regulations and taxation policies set by authorities and this prevents penalties and legal issues that could harm financial performance.					
Through strong policies, supervision and ethical leadership, the audit control environment helps identify and manage financial risks before they negatively affect financial performance.					
Effective audit control environment encourages efficient resource utilization such as cash, inventory and equipment because they are used responsibly thus reduces wastage and improves profitability.					

C. The effect of monitoring and evaluation on financial performance

Statement	1	2	3	4	5
Monitoring and evaluation helps the business regularly assess its activities and financial results and this allows management to determine whether the business is meeting its financial goals and objectives.					
Monitoring and evaluation improves decision making by providing reliable data and feedback about business operations which helps managers makes informed financial decisions that promote profitability.					
Monitoring and evaluation can detect inefficiencies, errors, or poor performance and addressing these weaknesses improve financial performance**.**					
Monitoring and evaluation ensures financial and physical resources are used effectively and wasted leading to improved profitability.					
Monitoring and evaluation compares actual financial performance with planned budget which helps ensure financial discipline.					
Financial and operational problems are identified early with monitoring and evaluation and helps avoid losses with early correction.					
Evaluation provides information about what strategies work and the businesses adjusts their strategies to improve financial performance.					

Thank you for your cooperation