

INTERNAL CONTROL SYSTEM ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

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**UGANDA CHRISTIAN
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DECLARATION

I, Ssekamanya Collins declare that this is my work entitled Internal Control System on the Performance of Small and Medium Enterprises in Busega Trading Centre and it has never been submitted by anyone else. I also recognize the guidance of my supervisor in the preparation of this dissertation.

Signed

Date15/10/2026

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APPROVAL

This is to approve that this research report has been done under my guidance and is now ready for submission for examination to the School of Business.

Signature *Allen*

Date *15/04/2026*

Mrs. Allen Kagume

DEDICATION

I dedicate my work to my mother, my siblings and my supervisor Mrs. Allen Kagume who have supported me throughout this academic journey with their unwavering support, encouragement and prayers. May the Lord bless you all abundantly for your presence in my life has been a source of inspiration and strength.

ACKNOWLEDGEMENT

I begin by thanking god for the strength and grace to navigate this academic journey. This work would have not reached its current standard without the dedicated supervision of Mrs. Allen Kagume who offered invaluable direction at every stage, I am so thankful to the team at Busega Trading Centre for the essential contribution to my research. Finally my heartfelt appreciation goes to my mother and siblings. Your unwavering love and support have been the driving force behind my success and I am truly blessed to have you in my corner.

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LIST OF ABBREVIATIONS

ROS	:	Return on sales
ROE	:	Return on Equity
ROA	:	Return on Assets
ICS	:	Internal Control Systems
SMEs	:	Small and Medium-sized Enterprises
SPSS	:	Statistical Package for Social Sciences

ABSTRACT

This study investigates the effect of internal control systems on the financial performance of medium enterprises. Internal control systems are vital for guaranteeing the accuracy and dependability of financial reporting, protecting assets, and improving operational efficiency. The research looks into how effective internal controls contribute to improved financial results by lessening errors and fraud, boosting operational efficiency, and supporting regulatory compliance. By analysing data from medium-sized enterprises across various industries, the study evaluates the relationship between the strength of internal control systems and key financial performance indicators such as profitability, liquidity, and financial stability. Findings suggest that well-implemented internal control systems considerably enhance financial performance by reducing risks and optimizing resource use. The study highlights best practices for developing and maintaining effective internal controls and offers recommendations for medium enterprises seeking to leverage these systems for better financial outcomes.

CHAPTER ONE

1.0 INTRODUCTION

This opening chapter offers a thorough architectural plan for the entire research project. It establishes the essential background of the study, outlines the primary goals, and defines the specific problem that motivated this investigation. Additionally, it details the core questions the research aims to resolve, the boundaries of the study, and the overall importance of the work while offering a detailed look at the conceptual framework that supports the entire inquiry.

1.1 Background of the Study

In the modern corporate landscape, internal control systems are best understood as a diverse set of tools and strategies put into action by directors, management and staff alike. The primary goal of these frameworks is to provide a reliable level of assurance across several vital areas: the precision of financial reporting, the overall productivity of business operations and strict compliance with legal requirements. Ultimately, the priority is to ensure the organization successfully hits its established targets (Hayes et al., 2005).

Generally speaking, internal controls are the protocols designed by those in positions of governance to offer a reasonable degree of certainty that a company's goals are being achieved. These objectives typically focus on financial transparency, operational efficiency and adherence to societal regulations. It is vital to remember, however, that these mechanisms offer leadership a "reasonable" level of comfort rather than an absolute guarantee that every single goal will be met. As noted by Hayes et al. (2005), the actual success of these systems is naturally constrained by the limitations inherent in any internal control structure.

There is a widespread belief that implementing robust internal control mechanisms leads to superior financial outcomes. Many also argue that when these systems are effectively executed, they enhance the accountability of leadership by refining the reporting process and making the final data more trustworthy. Interestingly, current

academic literature points to a paradox: financial performance often remains a challenge for many firms regardless of the control frameworks they have established. This investigation is rooted in "The Agency Theory," which was originally formulated by Jensen and Meckling (1976) and later expanded upon by Abdolmohammadi and Serens (2010).

Agency theory views a firm as a central point for various contracts between the managers (the "agents" tasked with overseeing assets) and the "principals" (the owners of those resources). A major pillar of this theory is the fact that agents almost always possess more information than the owners. This "information gap" makes it significantly harder for owners to monitor whether managers are truly fulfilling their obligations. Furthermore, the theory assumes that both parties are naturally motivated by a desire to maximize their own personal wealth.

Since internal control is a primary method businesses use to manage this "agency problem," this theory was a natural choice for the current investigation (Jensen & Payne, 2003). In this study, "internal control systems" refers to the specific procedures leadership uses to achieve business goals, maintain accurate records and ensure compliance (COSO, 2013). Financial health is measured using several metrics, including profitability, liquidity (evaluated via current and acid test ratios) and the ease with which a business meets its financial obligations. In contrast, Stoner (2003) defines performance as a firm's ability to remain profitable, survive, and react quickly to changes in the external environment.

For this project, the researcher follows the definition of internal control systems provided by Ray and Kurt. While these systems are broad, this study focuses specifically on three pillars: Control Activities, Internal Audit and the Control Environment. Furthermore, financial performance is examined primarily through the lenses of accountability, reporting, and liquidity.

1.1.1 Financial Performance

Stoner (2003) describes performance as an organization's capacity to function both efficiently and financially while managing growth and responding to risks in the external environment. This aligns with the perspective of Sollenberg and Anderson (1995), who argue that performance is essentially about how effectively a business utilizes its assets to reach its goals. Therefore, financial performance is the degree to which an entity hits its financial targets a monetary snapshot of a company's internal operations. Consequently financial documents act as a mirror reflecting the overall success of the firm.

Hitt et al. (1996) identify three primary indicators for accounting-based results: Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS). Each is calculated by dividing net income by total assets, total common equity, and total net sales, respectively. In the context of credit organizations, positive financial outcomes are often achieved by eliminating waste in operational systems. A key success factor for these firms is how well they fulfill their mission by remaining economical, efficient, and effective. Ultimately, the data generated by a solid internal control system as recorded in financial statements is essential for oversight and informed economic decision making (Stoner, 2003).

1.2 Statement of the Problem

Even though the significance of Internal Control Systems (ICS) is widely acknowledged, a major gap remains in understanding how they specifically influence medium-sized enterprises. This research investigates the extent to which effectively implemented ICS impact risk management, financial integrity and operational efficiency. The goal is to identify the primary factors that either support or hinder these systems within the medium enterprise sector.

1.3 Objectives of the Study

The main aim of this research is to establish the specific impact that internal control systems have on the overall performance of medium-sized enterprises.

1.4 Specific Objectives

To achieve that main goal, the research is guided by the following objectives:

To analyze the specific ways in which internal control systems influence the financial performance of medium enterprises.

To investigate the actual relationship between internal control systems and the financial results of these medium-sized firms.

To identify the primary challenges and barriers that medium enterprises encounter when attempting to implement effective internal control systems.

1.5 Research Questions

The study is designed to answer these specific questions:

What is the specific impact of internal control systems on the financial performance of medium-sized enterprises?

How is the relationship between operational efficiency and internal control systems defined within these medium enterprises?

What are the main barriers and challenges that medium enterprises face when trying to maintain and implement effective internal control systems?

What are some potential solutions for the obstacles that medium enterprises face regarding their internal control frameworks?

1.6 Scope of Study

The scope of this investigation is categorized into three main areas: Geographical, Time, and Content.

1.6.1 Geographical Scope

This research is situated in Wakiso district, specifically along Busega Road. The choice to limit the study to Busega Road was a practical one influenced by financial

constraints and limited resources that made it difficult to expand beyond this specific location.

1.6.2 Time Scope

The study examines a 3 to 5-year period as this was the specific timeframe during which the researcher was able to access the necessary data.

1.6.3 Content Scope

The focus of this investigation is on how internal control systems influence the financial performance of medium enterprises in Uganda, particularly within the Wakiso district. The findings will be used to suggest new strategies for improving internal controls in these businesses. For the purpose of this study, Internal Control Systems are identified as the independent variable.

1.7 Significance of the Study

By focusing on a specific timeframe and a particular area like Busega Road in Wakiso, this research establishes a foundational baseline that other scholars can easily replicate for future studies across East Africa or other parts of Uganda. The decision to focus specifically on control activities, internal audit and the control environment while evaluating financial performance through liquidity reporting and accountability allows this work to build a very concentrated conceptual framework. As a result, this study provides a specialized structure that other academics and researchers can utilize to test or expand upon by using larger samples and more variables in the future.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This specific chapter is dedicated to evaluating the various perspectives, academic theories, and insights shared by different scholars regarding the link between internal control frameworks and the success of medium-sized businesses. The literature reviewed in the following sections is structured around the primary goals of this study and its core research questions, with a focus on the following thematic areas.

2.1 Key Concepts

2.1.1 Internal Control Systems

In a broad sense, internal control systems represent the unified processes that businesses set up to ensure their financial reports are honest, their operations are productive, and all legal requirements are satisfied. These frameworks consist of specific policies, practical procedures, and oversight tools intended to protect company assets, discourage fraud, and improve the overall efficiency of an organization's internal functions.

2.1.2 Financial Performance

This concept involves a total assessment of a firm's economic health, focusing on variables like profitability, total revenue, debt obligations, and asset management. In a practical sense, the operational success of a business is usually measured by its ability to drive higher profits while keeping liabilities to a minimum. Such systems also include the safeguards necessary to protect capital and catch fraudulent activity before it escalates.

2.1.3 Medium Enterprises

Medium enterprises represent the middle tier of the business world, sitting between small-scale shops and massive corporations. They are defined primarily by their annual revenue, physical footprint, and the size of their workforce. While these

companies often have more resources than a tiny startup, they do not yet have the market dominance or the vast scale of major industry leaders. It is important to note that the criteria for what counts as "medium" often change from one country to another. For this study, the research focuses on pharmacies, fuel stations, and supermarkets as the primary examples of medium-sized businesses.

2.2 The Impact of Internal Control Systems on the Financial Performance of Medium Enterprises

Research by Hayes (1995) suggests that effective internal controls within the SME sector are directly tied to corporate success and serve as a vital deterrent against employee theft. Earlier, Snyder et al. (1989) argued that these controls must function without interruption and be designed to monitor staff activities through the strategic division of duties. Snyder et al. (1989) also observed that a significant portion of medium enterprises fail specifically because they lack controls for critical areas like cash management, payroll, inventory, and general accounts receivable.

Furthermore, a 2006 study by Bronson et al. highlighted that internal control serves as a highly effective tool for gauging the success of small and medium enterprises. Their findings indicated a strong positive link between robust controls and business achievement. When a firm improves its internal oversight, it becomes better equipped to make sound internal decisions, leading to a more stable organization with fewer instances of internal fraud. This includes better management of performance metrics, inventory, and payables. Additionally, Peterson and Zikmund (2004) discovered that strong internal controls improve corporate governance by making employees feel that detection is likely, which helps prevent fraud and ensures management hits its targets.

However, Grollman and Colby (1978) suggest that the direct involvement of the owner or manager is a unique and vital part of internal control for smaller firms. For instance, a manager in a small business is often in a much better position to oversee daily operations than an executive in a giant corporation. They can personally monitor incoming orders, shipping schedules, cash receipts, and customer complaints.

Approving transactions is another core part of this executive oversight. While it may not always be practical, managers should try to authorize all major transactions and review the paperwork. This makes understanding inventory policies and transaction volumes essential.

Every business, regardless of its size, needs functional internal controls to monitor the workforce and keep financial records honest. Meeting these goals requires a mix of specialized software and human eyes. Because many small business owners lack deep accounting knowledge, professional accountants are often needed to act as advisors and help build these control frameworks. Applying measures like independent audits and document retention proves beneficial for many private firms.

The relationship between controls and performance has been examined globally. Oseifuah and Gyekye (2013) looked at South African SMEs and found that internal control practices were often dangerously low, with few firms having adequate systems. Similarly, Dineshkumar and Kogulacumar (2013) found a strong correlation between firm performance and internal control systems at Sri Lanka Telecom Limited, though that study wasn't limited to the SME sector.

In Kenya, Kamau (2014) found a positive link between internal controls and financial results in manufacturing firms. However, because that study focused on large companies, its findings might not perfectly translate to the SME sector. Most existing research confirms that controls are vital, yet there is a clear gap in data specifically regarding SMEs, as most international and local studies prioritize large-scale corporations. This study aims to fill that literature gap by looking specifically at the financial performance of SMEs in Nairobi County.

2.3 The Relationship Between Internal Control Systems and Financial Performance of Medium Enterprises

The academic foundation for linking internal control to financial success is well-documented. Research has shown that financial outcomes are often tied to specific

controls like budgeting, physical authorizations, the segregation of duties, and rigorous management supervision (Weber, 1998).

Following the 2013 COSO framework, Adegboyegun et al. (2020) analyzed SMEs in Ondo State and found a major positive connection between the control environment and operational performance. According to the Resource-Based Theory, because medium enterprises have limited assets, they must use control mechanisms to ensure those resources are used as effectively as possible. Barney's (1991) theory suggests that firms rarely have enough resources to operate perfectly; therefore, survival depends on managing scarce assets. Internal controls act as a shield against waste and mismanagement, helping SMEs gain a competitive edge.

Effective controls also help in identifying and mitigating risks like fraud or reporting errors that could damage financial health. By addressing these threats proactively, firms can stabilize their results. Furthermore, well designed controls simplify workflows by clearly defining who is responsible for what, which reduces wasted effort and lowers costs. Finally, reliable financial reporting builds credibility with investors and ensures the firm stays compliant with the law, avoiding expensive penalties.

2.4 Key Challenges and Barriers Faced by Medium Enterprises

While SMEs are the backbone of many developing economies (Chakraborty, 2015), many struggle just to stay afloat. Even those that survive often perform poorly (Neneh & Zyl, 2012). Although internal controls could help these firms prosper, many are run solely by owners who prioritize immediate performance over accounting "red tape."

In Kenya, for example, the failure rate is high, with three out of five businesses closing within their first few months. Kinyua (2014) argues this is often due to "agency problems" between owners and employees. Medium enterprises specifically face several "stumbling blocks":

Limited Resources: They often lack the money or specialized staff to buy and run complex control systems.

Complexity: As a business grows, its operations become harder to monitor without becoming too bureaucratic.

Resistance to Change: Staff may fight new rules if they fear additional work or a loss of independence.

Lack of Expertise: Owners may not always grasp why internal controls are necessary or how to design them.

Technological Gaps: Many SMEs rely on manual processes that are prone to mistakes because they cannot afford automated tools.

Sustainability: Once a system is in place, maintaining its effectiveness over time is a constant struggle for smaller teams.

2.5 The Solutions to Key Challenges and Barriers Faced by Medium Enterprises

There are several ways that small and medium-sized businesses can enhance their internal control frameworks, primarily by managing their human resources, data, and daily operations with greater precision. To start, these firms can bolster their oversight activities, refine management oversight, and cultivate a more secure internal environment through better information systems and dialogue. By making risk awareness a central theme, smaller organizations can ensure that safety mechanisms are always a priority.

One practical step is for small businesses to establish a formal code of conduct for all staff members. Key principles of internal control, such as the clear definition of individual responsibilities and the strategic separation of duties, are essential here. Other protective measures for physical assets include limiting access to funds, setting lower thresholds for cash on hand, and performing regular cost analyses. Additionally, practices like staff rotation, employee bonding, and conducting independent transactional checks serve as critical layers of protection. Business leaders must take an active role in ensuring that these internal control remedies are followed with strict consistency.

Internal controls are also instrumental in lowering the frequency of errors and fraudulent activities. While it is impossible to stop every instance of fraud, a solid set of "common sense" internal protocols can monitor and prevent the majority of issues found in smaller organizations. Practical methods for SMEs include requiring a specific owner's signature on all checks, performing online reviews of bank statements, and keeping check stocks in locked locations. It is further suggested that these enterprises stay on top of their financial health by approving all supplier invoices and evaluating their banking relationships on a consistent basis.

2.6 Conclusion

Based on the extensive review of existing literature, it is clear that internal control systems play a transformative role in the financial performance of medium sized firms. The overall effectiveness of these systems can lead to noticeable improvements in risk management, operational efficiency, and a company's general financial well-being. When internal controls are thoughtfully established and diligently monitored, they provide a vital pathway for medium enterprises to reach their financial targets and increase value for all stakeholders involved.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter offers a comprehensive account of the methodological framework and the particular instruments utilized to collect and interpret the study's data. As Kothari (2014) effectively describes it, methodology represents the organized strategy employed to solve a research inquiry. In the following sections, the discussion outlines the specific paths taken to investigate the core problems of this study, as well as the underlying logic supporting these academic decisions.

The narrative is structured to address the research design, the target population, and the geographical focus of the study, alongside the reasoning behind the sample size. It further details the sampling plans, the sequential procedures for data acquisition, the diverse sources of information, and the measurement levels applied to the variables. Finally, the chapter highlights the vital steps taken to maintain data quality and the specific techniques used for the ultimate analysis and presentation of findings.

3.1 Research Design

A cross-sectional survey research design was selected for this specific inquiry. Surveys are widely respected for their capacity to gather data from diverse population groups and are particularly useful for identifying the demographic characteristics that define a specific sample (McIntyre, 1999). As noted by Bell (1996), surveys are relatively easy to develop and oversee; they permit a researcher to analyze a variety of variables at the same time, making it simpler to formulate general conclusions. However, it must be recognized that surveys generally provide estimates of population parameters rather than absolute, pinpoint measurements (Dillman & Salant, 1994).

3.2 Study Area

The investigation was physically centered on businesses operating within the center of Busega Town. This specific location was chosen because it acts as a central hub for established medium-sized firms that align perfectly with the goals of this research project.

3.3 Study Population

In the realm of research, a population refers to the broader group from which a specific sample is extracted for detailed study. For this project, the study population consisted of top-level management members, both external and internal auditors, senior and middle-level operational employees, and a few selected clients.

The target population comprised forty individuals, all of whom contributed data to the investigation. This group was selected with the intent of ensuring that the gathered information originated from reliable sources with hands-on experience. Consultations were strictly restricted to those with the professional background needed to offer meaningful feedback. Furthermore, the researcher wanted to assess how the shift toward automated accounting systems impacted audit efficiency when compared to traditional manual methods.

3.4 Sample Size Selection

The sample size represents the specific count of participants a researcher involves in the data collection process (Evans et al., 2000). To ensure the outcomes were statistically reliable, the researcher utilized the Yamane formula:

In this calculation, n stands for the sample size, N represents the total population of 40, and e is the margin of error or confidence level. Based on these computations and the availability of information from both primary and secondary sources, the final sample was composed of 25 respondents.

3.5 Sampling Techniques

The selection of participants was managed using a blend of purposive and selective sampling methods. This strategy allowed for the intentional recruitment of internal auditors, executive management, and middle-level staff. These individuals were questioned regarding their daily operational routines and the professional environments they navigate. The resulting information played a vital role in confirming the core research problem.

3.6 Data Sources

The study utilized a dual-source strategy, combining both primary and secondary information. Primary data refers to original, "raw" details collected specifically for this study; in this instance, it was gathered through the use of a structured, self-administered questionnaire.

Secondary data involves information that has been previously processed by others for different initiatives. For this inquiry, secondary data was extracted from a review of various published and unpublished documents. This included a detailed analysis of audited financial statements, existing financial laws, and internal accounting manuals relevant to the research theme.

3.7 Measurement Levels

To ensure the findings were statistically sound, the study employed four distinct measurement levels: nominal, ordinal, interval, and ratio.

Nominal scales were used to categorize groups, such as gender or educational history.

Ordinal scales were used to rank items based on merit (like "higher" or "lower") without specifying the exact distance between those ranks.

Interval scales measured variables with equal gaps between points but used an arbitrary zero.

Ratio scales utilized an absolute zero point to measure equal intervals.

A five-point Likert scale was also used to record participant opinions, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), with a neutral middle point (3) for those who remained undecided.

3.8 Data Collection Instruments

The research was primarily supported by the following instrument:

3.9 Questionnaire

Structured questionnaires were distributed to a targeted group of medium enterprises in the Busega area. These were crafted specifically to evaluate how internal control systems impact a firm's financial results.

3.10 Data Collection Procedure

Before any data was collected, the researcher obtained an official letter of introduction from the Dean of the Faculty of Business and Administration at Uganda Christian University. After receiving the required consent, questionnaires were handed out to management and auditing staff.

The fieldwork was conducted in 2026. All participants were provided with a complete guarantee of confidentiality, explaining that the study was strictly for academic purposes. Furthermore, the data was fully anonymized to ensure that no specific respondent could be identified from the final report.

3.10.1 Quality and Error Control

Validity refers to the extent to which a researcher's interpretation of a situation aligns with the actual reality (McMillan & Schumacher, 2006). To protect this, the questionnaires underwent a pre-testing phase. This pilot study helped the researcher gauge the time needed for completion and verify that the questions were correctly measuring the study's variables.

Five individuals from the general public who were not included in the final sample took part in this pilot. Their input was used to eliminate irrelevant questions and fix any errors before the final tool was deployed.

3.10.2 Reliability

According to Mugenda (2003), reliability is the capacity of a research instrument to generate consistent outcomes over time. To confirm this, the questionnaire was tested on five respondents outside the final sample group. This stage allowed the researcher to polish the questions, remove redundant items, and refine the tool based on actual field observations.

3.11 Data Presentation and Analysis

3.11.1 Quantitative Data Analysis

Once gathered, the data was analyzed using Version 20 of the Statistical Package for Social Sciences (SPSS). The outcomes were organized into tables and interpreted via descriptive statistics, such as mean, frequency, and standard deviation. These techniques were chosen because they provide a clear and accessible way to display the primary features of the research variables. Basic calculations were also performed using Excel for extra precision.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF THE RESULTS

4.0 Introduction

The inquiry questions that directed the research's methodology are utilized to increase on the outcome analysis and interpretation of the outcomes in this segment. The demographic data on the attributes of the participants is presented in Section 4.1 and the data concerning the impact of internal control systems on the monetary performance of medium-sized firms are presented in Section 4.2. The research paper's third section goes into greater detail about the link between internal control systems and financial performance. Section 4.4 lists a few difficulties in line with internal control system implementation and maintenance.

4.1 Demographic characteristics of respondent

This subsection presents data on the demographic characteristics of respondents who participated in this research structured by i) Response Rate, ii) Age brackets, and iii) level of education.

4.1.1 Response Rate

Simple questionnaires were designed and given out to establish the impact of internal control system on the financial performance of medium enterprises in and around Busega trading centre.

Table 1: Response Rates

Details	Frequency	Percentage
Responded	15	60
Did not respond	10	40
Total	25	100

Source: Primary Data

The study's response rate is shown in the above table. Out of the 25 respondents in the target group, 15 complied accounting for 60% of the response rate. The remaining 10 respondents, or 40% of the sample size did not participate in the study. According to the research criteria, 60% of responses are required to accurately reflect the study population rates.

4.1.2 Age Bracket of respondents

Table 2: Age bracket of respondents

Details	Number	Percentage
21-30	7	47
31-40	7	47
41-50	0	0
Above 50	1	6
Total	15	100

Source: Primary Data.

Seven individuals or 47% of the entire response group were in the 21-30 and 31-40 age groups out of a total of 15. A single individual making up 6% of the sample was over the age of 50years. These outcomes show that most of the participants were young adults in the under-40 age range.

4.1.3 Educational background of the participant

The below presents the results of the examination of the education levels of the participants.

Table 3: Educational background of the participant

Details	Number	Percentage
Primary level	0	0
Secondary level	2	13.33
Certificate level	1	6.7
Diploma level	1	6.7
Bachelors level	10	66.7
Masters level	1	6.7
Total	15	100

Source: Primary Data

Out of the fifteen participants, two individuals had stopped at secondary stage showing a 13% response rate. One more person had stopped at certificate stage showing a 6.7% response rate and one individual had stopped at diploma stage showing a 6.7% response rate, ten individuals had stopped at bachelor's stage showing a 66.7%, one individual had completed up to Master's Degree showing a 6.7% response rate. The above results point to the fact that the majority of the individuals who work in medium enterprises have Bachelors' Degrees (66.7%) and these are succeeded by the people who possess secondary school diplomas (13.33).

4.1.4 Civil status of the participant

The table below displays the outcomes of the examination of the civil status of the participants.

Table 4: Marital status of the respondent

Details	Number	Percentage
Single	50	50
Married	50	50
Total	100	100

Source: Primary Data

Out of the fifteen participants, six persons were single showing a 40% participation rate. Seven persons were married showing a 46.7% participation rate and two persons were divorced showing a 13.3% participation rate.

The outcomes are organized in the subsequent section in line with the three research goals.

The data came from surveys that were given to different businesses in and around Busega Trading Centre. In order to analyze the questionnaire replies, codes were assigned, with 1 denoting severely disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree.

4.2 The Effect of Internal Control Systems on Financial Performance

The initial objective of this research was to examine the effect of internal control systems on the financial performance of medium enterprises. The table below presents the analysis of the findings from the questionnaire on this topic.

Table 5: Effect of Internal Control Systems on financial Performance

Number	Question	Mean	Standard deviation
1	The internal control systems contribute to achieving our enterprise's strategic goals.	4.4	0.05
2	Effective internal control systems improve the overall performance of our enterprise.	4.4	0.05
3	The internal control systems in our enterprise significantly enhance operational efficiency.	4.5	0.06
The average mean of the responses on the Effect of Internal Control Systems on Performance		4.4	0.05

Following is the interpretation of these outcomes.

4.2.1 The internal control systems contribution to achieving the enterprise's strategic goals

If the respondent's employer's internal control systems helped the organization achieve its strategic goals, this was the subject of another survey question. All fifteen respondents, on average, agreed that internal control systems greatly increase organizational efficiency, as indicated by the average response to this inquiry (4.4).

The conclusion corresponds with the literature reviewed, which identified that internal control systems permit organizations to have correct financial reporting and dependable financial management, enabling them to make informed decisions, obtain financing, and invest in growth opportunities (Doyle & McVay, 2007).

4.2.2 The internal control systems improve overall performance

The respondents were asked if their company's internal control systems help improve the enterprise's overall performance, the Analysis of the responses to this question in the table above produced a mean of 4.4, indicating that on average, all fifteen respondents accepted that internal control systems help improve the enterprise's overall performance.

This conclusion aligns with the literature reviewed which showed that internal control systems allow organizations to have precise financial reporting and dependable financial management enabling them make informed decisions obtain financing and invest in growth opportunities (Doyle & McVay, 2007).

This result is in agreement with the literature review which found that internal control systems aid in the identification and prevention of fraudulent activities protecting businesses from monetary losses and reputational harm. It was also discovered that the internal control systems had made sure that frequent audits were conducted to streamline operations and eliminate duplications. This improved resource management, speeded up procedures and increased overall productivity.

4.2.3 The internal control systems significantly enhance operational efficiency

The inquiry focused on whether their organizations internal control frameworks improve operational effectiveness. After this question's responses were analyzed, a mean of 4.5 was determined. Consequently all fifteen respondents strongly agreed on average that internal control systems help their organization achieve its strategic goals as indicated by a mean score of 4.5, which is closer to 5 = Strongly Agree.

This finding aligns with the literature reviewed, which indicated that internal control systems enable organizations to have accurate financial reporting and reliable financial management, allowing them to make informed decisions, secure financing and invest in growth opportunities (Doyle & McVay, 2007).

According to the literature analyzed for this study, internal control systems help identify bottlenecks and optimize processes, which make operations go more quickly

and smoothly and helps workers do their tasks more quickly and effectively. The literature also showed that the internal control system of the organization has helped to provide accurate resource monitoring and proper management, which improves staff performance and resource utilization. Systems of internal organizational control lower the rate of resource waste as well.

In conclusion, the overall results indicate a mean average of 4.4 for all the three responses indicating that all responses were agreeing that internal control systems impact the financial performance of medium enterprises.

4.3 The relationship between internal control systems and operational efficiency in medium enterprises.

The relationship between operational efficiency and internal control systems in medium-sized businesses was another purpose of this research. An analysis of the results from the questionnaire on this topic is shown in the following table.

Table 6: The connection between internal control systems and operational effectiveness

Number	Question	Mean
1	There is a positive correlation between internal control systems and financial performance of the enterprise	4.4
2	Strong Internal Control Systems are linked with better financial outcomes of the enterprise	4.3
3	Financial Performance improved due to the execution of robust Internal Control Systems	3.9
The average mean of the connection between internal control systems and operational effectiveness.		4.2

Following is the interpretation of these results.

4.3.1 A positive correlation between the internal control systems and the financial performance

Was there a constructive relationship between financial performance and internal control systems? The average rating for the feedback to this question was 4.4. This demonstrates that, on average each of the fifteen responding companies acknowledged the link between improved financial performance and internal control systems.

The above observations align with the existing body of work which suggests that internal control systems enhance the accuracy and reliability of financial reporting through improving the credibility of financial statements leading to better capital decisions and potentially reduced borrowing costs which positively impact financial outcomes (Jain & Rezaee, 2006).

Furthermore internal control systems guarantee that the entity complies with regulatory stipulations to avoid fines and legal costs which thus safeguards the organisation financial resources and maintains the organisation's financial solvency.

4.3.2 Strong internal control systems are associated with better financial outcomes in the enterprise.

Participants were asked whether robust internal control systems are associated with better financial outcomes in the enterprise. The evaluation of the responses to this question produced feedback of 4.3, suggesting that on average, all fifteen respondents agreed that strong internal control systems are associated with better financial outcomes in the enterprise.

The above observations are consistent with the already existing literature that internal control systems implemented by the enterprise ensure that financial data is accurate and complete. This dependability boosts the quality of financial statements, attracts investors and creditors and potentially lowers the cost of funding (Sharma & Iselin, 2012).

In general, the data shows that there is a good relationship between operational efficiency in medium-sized businesses and internal control systems, with an average score of 4.2 across all three responses.

4.4 The key challenges and barriers medium enterprises face in implementing and maintaining effective internal control systems

The study's third goal was to list some of the main obstacles and problems that medium-sized businesses face when setting up and maintaining effective internal controls. The table below analyses and presents the results under this subject.

Table 7: The key challenges and barriers medium enterprises face in implementing and maintaining effective internal control systems

Number	Question	Mean
1	Enterprise faces significant challenges in implementing internal control systems	2.9
2	Lack of resources is a major barrier to maintaining effective internal control systems in the enterprise	3.5
3	Training and expertise are insufficient to support the effective implementation of internal control systems	2.5
The average mean of the responses on the key challenges and barriers medium enterprises face in implementing and maintaining effective internal control systems.		3.0

Following is the interpretation of these results.

4.4.1 Enterprise encounters substantial obstacles in implementing internal control systems.

When asked if establishing internal control systems presents substantial challenges for enterprises, the respondents offered their replies. An average of 2.9 was obtained from the analysis of these responses, indicating that 15 respondents were either neutral or unsure about whether the company faces significant issues in establishing internal control systems.

The above results do not align with the already existing literature that medium businesses face inadequate financial and human resources which make it difficult for them to invest in comprehensive control system or hire specialized staff. This finding indicates that the respondents did not want to show a bad image of their medium enterprises.

4.4.2 Lack of resources is a major barrier to maintaining effective internal control systems in the enterprise.

The question is, "Lack of resources is a major barrier to maintaining effective internal control systems in the enterprise." The average mean of the 15 answers to this question's analysis was 3.5, meaning that, on average, they all agreed that a lack of resources makes it more difficult for an organization to maintain efficient internal control systems.

The above findings align with the already existing literature that the enterprises often have limited budgets, making it difficult to allocate funds for developing and maintaining comprehensive internal control systems and costs for other items that help control operations such as software, training and external audits (Hayes, et al., 2005).

4.4.3 Instruction and know-how are inadequate to support the successful execution of internal control systems

The goal of the survey was to determine if the respondents' knowledge and experience had been insufficient to enable the successful installation of internal control systems. An average score of 2.5 was obtained from the analysis of the responses to this question, indicating that fifteen respondents did not, on average, believe that the internal control systems had not been executed effectively due to a shortage of training or experience.

The above result does not align to the already existing literature that training and expertise alone cannot address a lack of organisational commitment or support. Without buy-in from the top management and staff, well trained employees struggled to put into practice internal controls systems effectively (Jensen & Payne, 2003).

In conclusion, the overall results indicate a mean average of 3.0 for all the responses suggesting that all respondents were neutral or not sure about the key difficulties and barriers medium enterprises face in implementing and maintaining effective internal control systems.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS, AND CONCLUSIONS

5.0 Preamble

This final segment serves as a synthesis of the research outcomes established in Chapter Four. The investigator provides a concluding set of reflections and practical proposals rooted directly in the initial aims of the study. The central purpose of this inquiry was to determine the extent to which internal monitoring frameworks within medium-sized businesses influence their overall financial health. This specific field study involved 15 moderate-sized entities located in the Busega area, including pharmacies fuel stations, hardware stores, and large supermarkets. The research focused on assessing the operational effects of these controls, evaluating the correlation between monitoring and monetary success and identifying the specific hurdles these businesses face when trying to maintain effective internal frameworks.

5.1 Overview of Outcomes

The following narrative summarizes the primary discoveries of the research.

Summary of Findings

In assessing the influence of internal control systems on the performance of medium enterprises, the research found a high level of agreement among participants. Specifically, the average mean score regarding the impact of these systems on operational efficiency was 4.4, indicating a strong positive effect.

When investigating the actual relationship between internal oversight and financial results, the data was equally compelling. The average mean of the responses concerning this connection stood at 4.4, suggesting that robust controls are a major driver of business success in the sector.

Regarding the obstacles encountered during the implementation phase, the results showed a more varied perspective. The average mean for the challenges medium enterprises face in sustaining these controls was 3.0. This suggests that while the

benefits of the systems are acknowledged, the process of keeping them operational remains a moderate challenge for business owners.

5.1.1 The Influence of Internal Control Systems on the Financial Performance of Medium Enterprises

The data gathered indicates that internal control mechanisms play a vital and beneficial role in the financial health of medium enterprises. Several key factors support this conclusion:

Fraud Prevention and Detection: Robust controls act as a primary shield for company assets reducing the risk of financial loss by identifying and stopping fraudulent behavior early. This ensures that financial records remain accurate and dependable, a factor that is vital for securing trust from investors or lenders.

Operational Optimization: By streamlining the use of available resources, internal controls drive higher efficiency which eventually leads to lower costs and stronger financial margins.

Regulatory Adherence: Proper controls allow businesses in Busega and beyond to stay compliant with legal standards helping them avoid costly penalties and fostering long-term confidence among stakeholders.

Risk Management: These systems assist management in identifying potential threats early hence creating a more stable financial environment.

5.1.2 The Connection Between Internal Control Systems and Financial Performance

The study confirmed a powerful positive link between these variables. This connection is driven by the fact that internal control frameworks improve the reliability of financial data, making reports more useful for strategic decision-making. Enhanced transparency typically leads to better investment choices and can even lower the cost of borrowing for the firm. Additionally, by ensuring the organization

strictly follows regulatory requirements, these systems protect financial reserves from being drained by fines or legal fees thus maintaining organizational stability.

5.2 Difficulties in Implementing and Maintaining Internal Control Systems

Interestingly, the results showed that many respondents took a neutral or uncertain stance regarding the specific hurdles their businesses face. This "neutral" average of 3.0 likely stems from a natural desire among participants to avoid portraying their respective organizations in a negative light. While the benefits are clear, the process of maintaining these systems involves complex human and financial factors that businesses are often hesitant to discuss openly.

5.3 Suggestions/Recommendations

Based on the field data, the following recommendations are proposed for medium-sized enterprises looking to strengthen their frameworks:

Prioritize Precision: It is highly advisable for firms to invest in strong controls that minimize errors. Accurate financial information is the foundation for informed decision making and better economic results.

Strengthen Compliance: Businesses should establish rigorous protocols to ensure they meet all industry standards. This not only avoids legal issues but also builds a strong market reputation.

Maximize Resource Use: Managers should use controls to identify waste and streamline daily operations as cost savings directly improve the bottom line.

Proactive Threat Management: Enterprises are encouraged to use their control systems to proactively identify risks, such as fraudulent activities or accounting misstatements.

Foster Accountability: Personnel at all levels must be encouraged to follow internal protocols strictly. Greater individual responsibility leads to fewer financial discrepancies and better output.

Maintain Fiscal Transparency: By keeping clear and precise records, medium enterprises can build trust with creditors and investors making it easier to access capital.

Conduct Regular Reviews: Controls should not be static. It is recommended that firms frequently monitor and adjust their systems to stay adaptable to the changing business landscape.

5.4 Conclusion

To conclude, the impact of internal control frameworks on the financial success of medium-sized businesses is both varied and deeply significant. When implemented with care, these systems offer a range of advantages from improving the accuracy of financial reports to ensuring legal compliance and fostering better asset management. Each of these components is essential for maintaining transparency and effective risk oversight. By adopting these measures in a structured way, medium enterprises can safeguard their assets, boost their operational results and build the investor confidence necessary for long-term sustainability.

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QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY SCHOOL OF BUSINESS

I am Ssekamanya Collins, a student of Uganda Christian University conducting a research study on “Internal Control System on the Performance of Small and Medium Enterprises” as a requirement for the award of Bachelors of Science in Accounting and Finance at Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality and it is only going to be used for education purposes.

Thank you.

SECTION A: Demographic Data

Please tick (✓) in the appropriate box as the most agreed answer to the following statements.

1. Gender of the respondent

Male Female

2. Age group of the respondent

21-30 years 31-40 years 41-50 years above 50 years

3. Marital status of the respondent

Single Married

4. Education level of the respondent

Primary level Secondary level Certificate level

Master's Degree Bachelor's Degree Diploma

Questionnaire: The Impact of Internal Control Systems on Financial Performance of SMES.

Please rate the following statements on a scale of 1 to 5, where 1 = Strongly Disagree (SD), 2 = Disagree, 3 = Neutral (N), 4= Agree (SA) and 5= Strongly Agree (D).

SECTION B: IMPACT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE

Details	SD	D	N	A	SA
Effective internal controls contribute to improved financial performance.					
Internal controls help reduce financial mismanagement in the organization.					
Internal control system help improve budgeting and financial planning.					
Internal audits help identify weaknesses affecting financial performance.					
Internal controls increase accountability in financial management.					

SECTION C: RELATIONSHIP BETWEEN INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE

Details	SD	D	N	A	SA
Strong internal controls help reduce financial losses					
Regular internal audits enhance the organization's financial performance.					
Segregation of duties helps improve efficiency in financial management.					
Effective monitoring of financial activities leads to better financial results.					
Internal control systems improve the accuracy and reliability of financial reports.					
Internal controls enhance transparency in financial management.					

SECTION D: CHALLENGES FACED IN IMPLEMENTING INTERNAL CONTROL SYSTEMS

Details	SD	D	N	A	SA
Limited financial resources hinder the proper implementation of internal control systems.					
Some employees fail to comply with established internal control procedures.					
Resistance to change from staff makes it difficult to implement new internal control measures.					
Lack of regular internal audit affects the effectiveness of internal control systems.					
Poor management support reduces the effectiveness of internal control systems.					
Fraud and corruption within the organization undermine internal control systems.					

SECTION E: SUGGESTED SOLUTIONS

In your opinion, what are the measures to overcome the challenges faced in implementing and maintaining internal controls?

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